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No. 18757

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

ROY EUGENE MORRIS,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

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No. 18757

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

Roy Eugene Morris,

Appellant,

vs.

United States of America,

Appellee.

APPELLEE'S BRIEF.

I.

JURISDICTION AND STATEMENT OF THE CASE.

On March 27, 1963, the appellant, Roy Eugene Morris, was indicted by the Federal Grand Jury for the Southern District of California, in a Three-Count Indictment, which charged that beginning on or about December 8, 1960, and continuing to the date of the return of the Indictment, the appellant devised a scheme and artifice to defraud Ruth A. Korn and to obtain money from such person by means of the following false and fraudulent pretenses, representations and promises which he well knew to be false when made: That he would look for a house trailer for Ruth A. Korn in Phoenix, Arizona; that he would purchase this house trailer for Ruth A. Korn with money that she would send him. This scheme was alleged in all counts of the Indictment; but each count described a different interstate transmission by wire: a telephone call from Phoenix, Arizona, to Blythe, California, on January 11, 1961 in Count One; a telephone call from Phoenix, Arizona, to Blythe, California, on January 17, 1961 in Count Two; a Western Union telegram from Blythe, California, to Arizona, on January 17, 1961 in Count Three. [C. T. 2-4.]*

On April 30, 1963, appellant filed a Motion to Narrow Indictment to One Count and a Motion for Dismissal of Count Two of the Indictment. Both motions were denied. [C. T. 12-15, 18.]

On May 1, 1963, in the United States District Court for the Southern District of California, the Honorable Harry C. Westover presiding, the jury returned a verdict of not guilty on Count One and guilty on each of Counts Two and Three. [C. T. 19-20.]

On May 1, 1963, appellant filed a Motion for Judgment of Acquittal and also, renewed his Motion for Dismissal of Count Two of the Indictment and his Motion for Judgment of Acquittal on Count One. [C. T. 16-17, 19.] On May 3, 1963, appellant filed a written Motion for Dismissal of Count Two of the Indictment. [C. T. 22-25.] On May 6, 1963, all three motions were denied. [C. T. 28.]

On May 20, 1963, the appellant was sentenced to the maximum period authorized by law on each of Counts Two and Three, the sentence to begin and run concurrently; and for a study as described in Title 18, United States Code, Section 4208(c), the results of such study to be furnished the sentencing court, whereupon the sentence of imprisonment would be subject to modification in accordance with Title 18, United States Code, Section 4208(b). [C. T. 29.]

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*C. T. refers to Clerk's Transcript.

Although not contained in the transcript of record, it is to be noted that the results of such study were furnished to the sentencing court; and on September 30, 1963, the United States District Judge ordered that the maximum sentences of imprisonment heretofore imposed be reduced and modified to a period of three years on each of Counts Two and Three of the Indictment, the sentences to begin and run concurrently; and it was furthered ordered that execution of the sentences be suspended and defendant was placed on probation for a concurrent period of three years on each of the said counts.

On May 21, 1963, the appellant filed a notice of appeal. [C. T. 30.]

The jurisdiction of the District Court was predicated on Title 18, United States Code, Sections 1343 and 3231, and this Court has jurisdiction to entertain this appeal under the provisions of Title 28, United States Code, Sections 1291 and 1294.

II.
STATUTE INVOLVED.

Title 18, United States Code, Section 1343, provides in pertinent part:

> "Whoever having devised or intending to devise any scheme or artifice to defraud, or for obtaining money or property by means of false or fraudulent pretenses, representations, or promises, transmits or caused to be transmitted by means of wire . . . in interstate or foreign commerce, any writing, . . . or funds for the purpose of executing such scheme or artifice, shall be fined not more than $1000 or imprisoned not more than five years, or both."

III.
STATEMENT OF THE FACTS.

On December 8, 1960, the appellant, Roy Eugene Morris, rented accommodations at the Valley Motel, in Blythe, California. He was accompanied by a Leona Moore, who registered as appellant's wife. [R. T. 18, 79-80.]*

Appellant was unemployed and in order to reduce the motel rent, he worked as a "handy man" for the motel owner, Ruth Korn. [R. T. 16, 19-20, 32-33, 81-82.]

During a discussion between appellant and Ruth Korn, she displayed an interest in acquiring a house trailer. Appellant said he would try to locate a trailer. [R. T. 20.] This conversation occurred in the first week of January, and on January 9, 1961, appellant and Leona Moore checked out of the Valley Motel. [R. T. 20-21.]

A couple of days after their departure, appellant telephoned from Phoenix, Arizona, to inform Ruth Korn that after contacting three finance companies, appellant had located six trailers which could be purchased for the sum of $5,000. Ruth Korn said she didn't want that many trailers and she didn't have that much money to spend. [R. T. 21-22, 38.]

On January 17, 1961, appellant telephoned from Phoenix, Arizona. In Miss Korn's absence, appellant spoke to Mattie Van Horn, a resident of the Valley Mo-

*R. T. refers to Reporter's Transcript.

tel. Appellant said he had located a trailer and requested that Ruth Korn wait for his next phone call. [R. T. 52-53.]

Ruth Korn was present at the Valley Motel when appellant again telephoned from Arizona on January 17, 1961. Appellant stated that he had located a repossessed trailer, 1958 model, National, and that the price was approximately $931. [R. T. 24.] When Ruth Korn replied that she would get the money and drive to Arizona, appellant stated there wasn't time since the offer was only good till 4:00 P.M., that day. He said that if Ruth Korn would send $931 to the appellant by Western Union money order, he would buy the trailer and deliver it in Blythe, California, on January 18, 1961. [R. T. 24-25.]

On January 17, 1961, Ruth Korn sent the $931 by Western Union money order. On January 18, 1961, appellant cashed the money order in Glendale, Arizona. [R. T. 6-10, 26-27, Exs. 1, 2.]

Appellant did not deliver a trailer to Ruth Korn. [R. T. 27.]

Ruth Korn did not see or hear from the appellant after he received the $931. [R. T. 31, 58.]

Within a few days, Ruth Korn reported the matter to the Sheriff's Office; and, after being a fugitive from 1961, the appellant was finally located and apprehended in Walden, Colorado, on March 21, 1963, by agents of the Federal Bureau of Investigation. [R. T. 41, 61-62.]

IV.

ARGUMENT.

A. Appellant's Motions for Acquittal Were Properly Denied and the Verdict of the Jury Must Be Sustained.

Appellant concedes the occurrence of the interstate transactions as described in the Indictment. Appellant asserts, however, that the evidence was insufficient to warrant a finding that he was involved in any scheme to defraud. In support of his position the appellant relies on the following three cases:

Merrill v. United States, 95 F. 2d 669 (9 Cir. 1938), involved a stock selling scheme, wherein the evidence showed that the last sale of stock occurred approximately one year before the earliest mailing count in the Indictment. The Court held there was no presumption that the scheme continued after the stock sales ceased.

Mazurosky v. United States, 100 F. 2d 958 (9 Cir., 1939), involved the question of whether or not the defendant had knowledge of and participation in a mail fraud scheme operated by his acquaintances. The evidence clearly showed the defendant's knowledge that his acquaintances had operated a scheme to defraud ten years prior to the period covered by the Indictment. The Court held in essence that a conviction could not be based solely on evidence of association.

Pennsylvania Railroad v. Chamberlan, 288 U. S. 333 (1933) was a wrongful death action which held that judgment must go against the party having the burden of proof where the facts give equal support to opposite inferences. Appellant offers this case for the premise that the evidence in the instant case shows that the appellant was guilty of either fraud by wire or embezzlement, and therefore, the conviction cannot stand.

These cases are either factually distinguishable or inapplicable. The Government contends that the evidence establishes that appellant devised a scheme to defraud based on fraudulent promissory representations.

> "Some schemes may be promoted through mere representations and promises as to the future, yet, are none the less, schemes or artifices to defraud."
>
> *Durland v. United States,* 161 U. S. 306, 313 (1896).
>
> ". . . A purchaser is *entitled to receive what he has been led to believe he would receive.* He is defrauded if the promised expectations *do not* materialize."
>
> *United States v. Whitmore,* 97 Fed. Supp. 733, 735 (Dist. Ct. of Calif. S.D., 1951).

The hallmark of a scheme to defraud is dishonesty. It was for the jury to say if appellant's actions were innocent coincidences on the one hand, or culpable participation in a fraudulent scheme to get money on the other hand.

In determining the existence of a scheme to defraud and appellant's knowledge and intent the jury could consider the following facts:

Appellant was in need of money [R. T. 19-20, 32, 81-82, 93]; Ruth Korn had money; appellant initially attempted to obtain $5,000 from Ruth Korn. [R. T. 22]; appellant's ruse to prevent Ruth Korn from coming to Arizona to purchase the trailer [R. T. 24]; appellant unnecessarily cashed the money order [R. T.

86]; appellant cashed the money order on January 18, 1961, the day *after* the trailer deal had collapsed according to his own witness [R. T. 11, 13, 15]; appellant did not deliver a trailer to Ruth Korn [R. T. 27]; appellant did not telephone or contact Ruth Korn after he received the $931.00. [R. T. 27-28]; and appellant never returned the money to Ruth Korn. [R. T. 31.]

Bolen v. United States, 303 F. 2d 870 (9 Cir. 1962);

Hoffman v. United States, 249 F. 2d 338 (9 Cir. 1957).

The jury could have also considered the contradicted and in part incredible testimony of Leona Moore, the woman who had lived with appellant during the four years preceding the trial of this case. [R. T. 102]. She testified that she was with the appellant when he received the $931.00 money order and when the trailer owner refused to sell. [R. T. 88-90, 95.] Leona Moore testified that she and the appellant drove four to five hours from Arizona, at night for the sole purpose of returning the $931.00 to Ruth Korn. After repaying the money in cash for which they received no receipt, they immediately drove an additional four to five hours returning to Arizona. [R. T. 90-91, 96, 98.] Leona Moore's testimony that the money was returned was contradicted by Ruth Korn and also Mattie Van Horn. [R. T. 27-28, 58.]

Debardeleben, et al. v. United States, 307 F. 2d 362 (9 Cir. 1962).

Finally, the jury could consider the fact that the appellant made no attempt to produce the owner of the trailer. If in fact a trailer owner existed, the appellant was in a position to identify this trailer owner or to give his last known address. Instead, the defense witness vaguely referred to the trailer owner as "the guy". [R. T. 87.] And the defense witness vaguely referred to the address of the trailer as in a trailer court on "a corner of some station,". [R. T. 87.]

> "The rule even in criminal cases is that if a party has it peculiarly within his power to produce witnesses whose testimony would elucidate the transaction, the fact that he does not do it creates the presumption that the testimony, if produced, would be unfavorable."
>
> *Graves v. United States,* 150 U. S. 118, 121 (1893).

See also:

Bisno v. United States, 299 F. 2d 711 (9 Cir. 1961), cert. den. 370 U. S. 952;

Samish v. United States, 223 F. 2d 358 (9 Cir. 1955), cert. den. 350 U. S. 848, reh. den. 350 U. S. 897;

United States v. Llamas, 280 F. 2d 392 (2 Cir. 1960).

The Government would submit that the facts of the instant case are completely analogous to the facts in *Ahrens v. United States,* 265 F. 2d 514 (5 Cir. 1959). The *Ahrens* case involved a violation of the fraud by wire statute. The essence of the scheme was that the defendant obtained money for the purpose of procuring a loan for the victim from an undisclosed principal. The victim did not see or hear from the defendant after he had received the money. The defendant did not return the money to the victim. The court held that the facts clearly and convincingly supported the inference that a principal did not exist and that the entire scheme was merely a device to extract money from the victim.

Appellee respectfully submits that the evidence of a fraudulent scheme or device to obtain money or property and the use of interstate wires in furtherance thereof was sufficient to sustain the jury's verdict. Especially is this true when this court, as it must, considers the evidence and inferences that can be drawn from it most favorably to the Government.

> *Glasser v. United States,* 315 U. S. 60 (1941);
>
> *Young v. United States,* 298 F. 2d 108 (9 Cir. 1962), cert. den. 370 U. S. 953;
>
> *Benchwick v. United States,* 297 F. 2d 330 (9 Cir. 1961);
>
> *Sandez v. United States,* 239 F. 2d 239 (9 Cir. 1956).

> "The rule for determining the sufficiency of circumstantial evidence on motions for acquittal was stated by this court in *Remmer v. United States,* 1953, 9 Cir. 205 F. 2d 277, 287, as follows:
>
> " 'The test to be applied on motion for judgment of acquittal . . . is not whether in the trial court's opinion the evidence fails to exclude every hypothesis but that of guilt, but rather whether *as a matter of law* reasonable minds, as triers of the fact, *must* be in agreement that reasonable hypothesis other than guilt could be drawn from the evidence. . . . If reasonable mind *could* find

that the evidence excludes every reasonable hypothesis but that of guilt, the question is one of fact and must be submitted to the jury.' "

Bolen v. United States, 303 F. 2d 870, 874 (9 Cir. 1962).

The Government would submit that from an examination of all the evidence, reasonable minds could find that the evidence excludes every reasonable hypothesis but that the appellant's promise to purchase a house trailer for Ruth Korn was a fiction proffered as bait to obtain money. Therefore, the motions for acquittal were properly denied and the verdict of the jury must be sustained.

Farrell et al. v. United States, ... F. 2d ......, No. 18,241 (9 Cir. Aug. 7, 1963).

B. The Trial Court Properly Instructed on the Significance of Flight or Concealment.

Appellant specifies as error an instruction to the effect that flight or concealment of a person, if proved, may be considered by the jury in the light of all other proved facts on the question of guilt or innocence. [R. T. 123.] Appellant correctly represents that it is error to instruct a jury based on a conjectural state of facts for which there is no evidence.

United States v. Breitling, 81 U. S. 252 (1857).

A review of the record discloses that Ruth Korn did not see or hear from the appellant after he received the $931.00; that within a few days Ruth Korn reported the matter to the Sheriff's Office; that appellant was a fugitive from 1961 until he was located in Colorado in 1963. [R. T. 28-29, 31 41, 61-62.]

Clearly there was evidence justifying the instruction on flight or concealment.

Campbell v. United States, 221 F. 186 (9th Cir. 1915);

Edmonds v. United States, 273 F. 2d 108 (D.C. Cir. 1959);

United States v. Waldman, 240 F. 2d 449 (2d Cir. 1957).

C. The Trial Court Did Not Unduly Limit Cross-Examination.

During the cross-examination of Ruth Korn, counsel for the appellant asked, "Were you happy to see him go?", and "What was your reaction, Miss Korn, when the defendant said he was leaving?" [R. T. 43-44.] The Court sustained objections to both questions and appellant assigns these rulings as error.

Appellee submits that this complaint is frivolous. The two questions are in essence an identical inquiry; and although the trial Judge sustained objections, the witness proceeded to give an answer which was not stricken from the record.

Furthermore, the Judge properly exercised his discretion in limiting appellant's cross-examination on a subject unrelated to the issues of the case.

> "The extent of cross-examination rests in the sound discretion of the trial judge. Reasonable restriction of undue cross-examination, and the more rigorous exclusion of questions irrelevant to the substantial issues of the case, and of slight bearing on the bias and credibility of the witnesses, are not reversible errors."

District of Columbia v. Clawans, 300 U. S. 617, 632 (1937).

See also:

Beck v. United States, 298 F. 2d 622 (9 Cir. 1962), *cert. den.* 370 U. S. 919;

Robles v. United States, 279 F. 2d 401 (9 Cir., 1959), *cert. den.* 365 U. S. 836; reh. den. 365 U. S. 890;

Todorow v. United States, 173 F. 2d 439 (9 Cir. 1949), cert. den. 337 U. S. 925.

D. The Presence of the Jury When Appellant Offered Additional Objections to Instructions Was Not Prejudicial Error.

1. No Prejudice Resulted.

Appellant contends that the trial court committed prejudicial error by allowing counsel for appellant to object to instructions in the presence of the jury. In support of this contention, appellant relies on two decisions.

The first case is *Lovely v. United States,* 169 F. 2d 386 (4 Cir. 1948), cert. den. 338 U. S. 834, wherein the Court stated that a new trial should be granted when defense counsel is required to object to instructions in the presence of the jury *unless no prejudice resulted therefrom.*

In the second case of *Hodges v. United States,* 243 F. 2d 281 (5 Cir. 1957), the Court held that failure to comply with Rule 30, Federal Rules of Criminal Procedure, Title 18, United States Code, viewed in the light of the trial court's derogatory characterizations of defense counsel throughout the whole trial was reversible error.

Failure to take exceptions to the instructions outside the presence of the jury may constitute prejudicial error when coupled with the element of judicial bias or condemnation. This premise is affirmed by the fact that the same appellate court which decided *Hodges v. United States, supra,* subsequently ruled in *Sultan v. United States,* 249 F. 2d 385 (5 Cir. 1957), that there was no error in setting forth objections to the charge in the jury's presence.

Appellee submits that any statements of the trial judge in noting appellant's objections to instructions were not prejudicial. These statements did not disclose a personal viewpoint concerning the merits of the case, nor did they besmirch the motives of counsel for either side.

> *Lau Lee v. United States,* 67 F. 2d 156 (9 Cir. 1933);
>
> *United States v. Carmel,* 267 F. 2d 345 (7 Cir. 1959);
>
> *United States v. Levi,* 177 F. 2d 833 (7 Cir. 1949);
>
> *Vinci v. United States,* 159 F. 2d 777 (D.C. Cir. 1947).

2. Alleged Error, if Any, Was Harmless.

Prior to argument, the trial court informed both counsel of the proposed jury instructions and also noted appellant's exceptions in compliance with Rule 30, Federal Rules of Criminal Procedure, Title 18, United States Code. [R. T. 103-115.].

Failure to inform counsel of proposed instructions and rulings on defendant's proposed instructions has been held harmless error.

> *United States v. Ford,* 237 F. 2d 57 (2 Cir. 1956);

Steinberg v. United States, 162 F. 2d 120 (5 Cir. 1947).

After argument and instructions but before the jury retired for its verdict, the trial judge inquired if there were any objections. Appellant offered no objections. [R. T. 139.]

In the interim period, when the Court had directed Government counsel to proceed with final argument, appellant advised that he wished to object to jury instructions. [R. T. 116.] Appellant's request was beyond the scope of Rule 30, Federal Rules of Criminal Procedure, Title 18, U. S. C.

Appellee submits that any alleged error in allowing appellant to object to instructions in the presence of the jury was harmless for the following reasons: the trial court essentially complied with the provisions of Rule 30, Federal Rules of Criminal Procedure; appellant occasioned this additional hearing on objections; appellant did not request that the jury be excused; appellant did not object to failure to excuse the jury; the court did not prejudicially comment on appellant's objections; and the court gave the usual instructions concerning the acts and comments of the judge during the course of trial. [R. T. 128-129.]

United States v. Titus, 221 F. 2d 571 (2 Cir. 1955), cert. den. 350 U. S. 832;

United States v. Hall, 200 F. 2d 957 (2 Cir. 1953).

CONCLUSION.

For the reasons stated above, the judgment of the District Court should be affirmed.

Respectfully submitted,

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Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Jo Ann Dunne

No. 18760

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

Union Pacific Railroad Company,

Appellant,

vs.

Juan Munoz and Maria Munoz,

Appellees.

On Appeal From the United States District Court for the Southern District of California, Central Division.

BRIEF FOR APPELLANT.

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No. 18760

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Union Pacific Railroad Company,

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Appellees.

On Appeal From the United States District Court for the Southern District of California, Central Division.

BRIEF FOR APPELLANT.

I.

JURISDICTIONAL STATEMENT.

This is an appeal from a final judgment entered in favor of plaintiff, Juan Munoz, in the United States District Court, Southern District of California, Central Division, on March 25, 1963. The underlying action was brought by plaintiff, Juan Munoz, seeking damages for personal injuries suffered when he was struck by one of defendant's trains on the premises of his employer, Continental Can Company. The District Court's jurisdiction was invoked under 28 U. S. C. 1332(a)(1), the plaintiff being a resident of the State of California and the defendant being a corporation of the State of Utah, and the amount sued for exceeding $10,000.00.

The trial resulted in a verdict for plaintiff in the amount of $300,000.00. Defendant's motion for judgment after trial or in the alternative for a new trial, was denied by the trial judge on April 8, 1963. Defendant filed a timely Notice of Appeal on May 3, 1963. This court's jurisdiction rests upon 28 U. S. C. 1291.

II.

STATEMENT OF THE CASE.

This is an action for personal injuries brought by plaintiff, a resident of the State of California, against defendant railroad company, a corporation of the State of Utah, under the diversity provisions of 28 U. S. C. 1332(a)(1).

A. Factual Background.

The accident occurred at approximately 7:30 P.M. on December 7, 1961. One of defendant's switch engines proceeded into the premises of Continental Can Company in the City of Los Angeles for the purpose of picking up loaded gondola freight cars and spotting unloaded gondola cars. The first part of the operation was performed without incident as the engine coupled onto the loaded cars, pulled them out of the Continental premises, and placed them on the industrial spur track lead. The accident occurred as the switch engine returned into the Continental premises pushing four empty gondola cars ahead of the switch engine. The track on which the accident occurred runs alongside a loading platform approximately 324 feet in length. At the northerly end of the platform there is a large electric door enclosing the entrance of the tracks into a building. When the door is raised the railroad cars may be moved in or out of the building.

Plaintiff was employed in the shipping department of the Continental Company. On the night in question he went to dinner at 7:30 P.M. He walked out of the building in which he was working onto the loading dock next to the tracks, walked across the dock to a ladder, descended the ladder and was starting to walk across the tracks when struck by the leading gondola car, thereby incurring the injuries which formed the basis of his case against defendant.

B. Legal Background—Last Clear Chance.

The sole question involved in this appeal is whether or not the jury should have been instructed on the doctrine of last clear chance.

The last clear chance doctrine relieves an injured party of the results of his own contributory negligence and permits him to recover, despite such negligence, under certain specific circumstances. It is characterized as a "humanitarian" doctrine, which places its emphasis upon the time sequence of events and holds the defendant liable if immediately prior to the harm he has the superior opportunity to avoid it.

The legal principles governing this doctrine in California have been clearly enunciated by the appellate state courts. The leading case in California was decided in 1957 by the Supreme Court and laid down the basic formula for the application of the doctrine of last clear chance in the following language:

> "The doctrine of last clear chance may be invoked if, and only if, the trier of the facts finds from the evidence: (1) that the plaintiff was in a position of danger and, by his own negligence, became unable to escape from such position by the

use of ordinary care, either because it became physically impossible for him to escape or because he was totally unaware of the danger; (2) that defendant knew that plaintiff was in a position of danger and further knew, or in the exercise of ordinary care should have known, that plaintiff was unable to escape therefrom; and (3) that thereafter defendant had the last clear chance to avoid the accident by the exercise of ordinary care but failed to exercise such last clear chance, and the accident occurred as a proximate result of such failure."

Brandelius v. City & County of S.F. (1957), 47 Cal. 2d 729; 306 P. 2d 432.

It is error for the trial court to instruct the jury concerning the doctrine in the absence of substantial evidence, conflicting or otherwise, to support each of the three specified elements.

Doran v. City & County of S.F. (1955), 44 Cal. 477; 283 P. 2d 1.

The question of whether there is any substantial evidence to support each of the three elements is a question of law.

Doran v. City and County of San Francisco, supra.

If there is such substantial evidence to support each of the three elements, the question of whether the defendant should be held to have had a last clear chance to avoid the accident is a question of fact to be determined by the jury under appropriate instructions.

Doran v. City and County of San Francisco, supra.

In determining on appeal whether an instruction on the doctrine should have been given, the evidence is viewed most favorably to the contention that the doctrine is applicable.

> *Warren v. Ubungen* (1960), 177 Cal. App. 2d 605; 2 Cal. Rptr. 411.

The principles set forth above establish the framework of law within which this court should consider the present appeal. Appellant will discuss each of these principles in greater detail as applied to the facts in this case in the Argument section of this brief.

C. Facts Relating to Last Clear Chance.

The witnesses who are best able to testify concerning the events immediately preceding the accident are William Malone, the engineer who was operating the switch engine, the engine foreman Jack Baker, one of the switchmen, James Trembley, and the plaintiff himself, Juan Munoz. None of the other witnesses who testified at time of trial were actual eye witnesses to the accident, although Shirley Lawton was present in the accident area.

The plaintiff's testimony was that he was relieved to go to supper at about 7:30 P.M. [R. T. 224], walked out of the building in which he was working onto the dock and across the dock to the top of the ladder. [R. T. 225.] At this time he looked to his left and saw the train 100-150 feet away standing still. [R. T. 226.] While looking at the train, he saw a man get off the end of the closest railroad car and stand down on the ground. [R. T. 227.] He then looked to his right and saw a man standing four or five feet away with a lantern in his hand with whom he had a brief conversation concerning the weather. [R. T. 228.] He marked on Defendant's Exhibits F and J the spot where this man was standing at the time. [R. T. 254 and 255.] He then looked at the train again and the train had not moved and was still 100-150 feet away. [R. T. 229 and 258.] Plaintiff was shown the photograph, Defendant's Exhibit I, and testified that he went down the ladder in the same way that the man is shown going down the ladder in the photograph. [R. T. 229.] When he got to the ground he turned his head to the right and saw the train standing still, in the same position that it had been in when he looked previously while at the top of the ladder, and still 100-150 feet away. [R. T. 231, 259 and 260.] After looking at the train, he turned his body around toward the left so that he was facing toward the tracks. [R. T. 231, 261 and 262.] After turning around, but before walking forward, he looked at the train again [R. T. 264 and 265], and it was still 100-150 feet away, in the same place. [R. T. 266.] Before starting to walk across the tracks he was standing within one foot of the ladder. [R. T. 268.] He waited one or two seconds before starting to walk forward across the tracks [R. T. 264] at a normal, regular speed. [R. T. 265.] He took two or three steps forward and heard the man on his right, with whom he had had the conversation about the weather, yell "Go, Go". [R. T. 231 and 263.] He turned to look at the man who was yelling, took one more step and the train hit him on the hip and knocked him down. [R. T. 232 and 263.] The train ran over both of his legs. [R. T. 232, 233.] He did not see the train at all when it was moving. [R. T. 269.]

The engineer, William Malone, testified that he was operating the switch engine at the time of the accident, sitting on the right side of the engine. [R. T. 438.] The engine was pushing four gondolas [R. T. 439], with its headlight burning in the dim position. [R. T. 440.] The train was traveling approximately four miles per hour [R. T. 441], and did not change speed after entering the Continental Can premises until the brakes were applied just before the accident. [R. T. 442.] He was following lantern signals given by engine foreman Baker, who was down by the electric door. [R. T. 443.] He first saw the plaintiff when the plaintiff was up on the loading platform approximately eight feet from the edge of the ramp and walking toward the edge of the ramp. [R. T. 444 and 445.] Plaintiff was approximately ten feet south of the ladder when at the edge of the platform. [R. T. 495 and 497.] He testified that the plaintiff "put one hand down on the ramp, on the cement and stepped off of the platform". [R. T. 445.] He states that the plaintiff went out of sight after he stepped off the platform and that he stopped the train immediately. [R. T. 445.] He stated that he got a violent stop signal from engine foreman Baker just at the time the plaintiff started to step off the platform. [R. T. 444, 445 and 446.] He estimated that the leading edge of the train was eight or ten feet from the ladder at the time he saw the plaintiff for the first time, and was approximately eight feet from the ladder when he saw the plaintiff step off the platform. [R. T. 446.] He stated that when he first saw the plaintiff he had no reason to believe plaintiff would attempt to cross the tracks in front of the train [R. T. 448], that he had no idea that

Mr. Munoz would go forward, and he really fully expected him to stop. [R. T. 526.] He estimated that the train traveled approximately five or six feet after the brakes were applied. [R. T. 447.] He stated that on other occasions prior to the accident he had seen Continental Can employees wait on the dock for the train to go by. [R. T. 456.]

James Trembley testified that he was a switchman riding on the front edge of the front car as the train entered the Continental Can premises [R. T. 679], but that he got down to the ground at a point about 300 feet from the electric door [R. T. 680] and remained standing at that point, between the train and the dock. [R. T. 681.] He estimated the speed of the train at three or four miles per hour. [R. T. 681.] He stated that he saw the plaintiff step off the dock in front of the train at a time when the front end of the train was 10 or 15 feet from the ladder. [R. T. 683, 695.] He states that the plaintiff was facing away from the dock and toward the train when he stepped off [R. T. 683] and that plaintiff may have touched one of the steps of the ladder with the back of his heel as he descended. [R. T. 683.] He did not see the plaintiff at any time up on the platform. [R. T. 684.] He states that engine foreman Baker was standing 15 to 20 feet inside the electric door before the accident [R. T. 681] and that at the time the plaintiff stepped off of the platform he observed Mr. Baker give a violent stop sign signal. [R. T. 685.] He also heard Mr. Baker yelling at the same time. [R. T. 685.] At the time the accident occurred, the engine had already passed by him [R. T. 703] and the engineer could not see him, therefore. [R. T. 704.]

The testimony of Jack Baker was that he was the engine foreman on the switch crew on the night of the accident [R. T. 741] and that he remained at the area of the electric door when the switch engine pulled out of the Continental Can premises with the loaded cars. [R. T. 741.] As the switch engine returned into the Continental premises pushing the empty gondola cars, he was standing just outside of the electric door. [R. T. 743.] As the train proceeded toward him, he walked backwards inside the building. [R. T. 743.] The accident occurred between 7:00 and 7:30 and the lighting conditions were dark [R. T. 744], although there were electric lights located overhead on the dock. [R. T. 744.] He observed switchman Trembley riding on the lead car carrying a white lantern and then get off of the train and lean up against the dock. [R. T. 744, 745.] He was approximately 60 feet inside the electric doors, standing on the ground when he first saw the plaintiff, Juan Munoz. [R. T. 746.] He saw plaintiff one step before he reached the edge of the platform; that plaintiff took one step, and then one step down and he was on the ground. [R. T. 747.] The plaintiff came down the steps in a hurried manner. [R. T. 747.] He saw plaintiff take just one step on the platform and plaintiff was moving fast. [R. T. 770.] Plaintiff did not say anything to him before descending the ladder. [R. T. 747.] Plaintiff did not stop at the top of the ladder for any observable period of time. [R. T. 747.] The plaintiff did not look toward the train while standing at the top of the ladder. While plaintiff was coming down the steps, Baker gave a violent stop sign with his lantern and started hollering "No, No." [R. T. 753.] Baker then stated that the plaintiff had "just

III.

SPECIFICATION OF ERRORS RELIED UPON.

1. The District Court erred in giving Plaintiff's Requested Instruction No. 37 on the doctrine of last clear chance as follows:

> "A certain reasoning process that we sometimes call to our aid in analyzing the facts of an accident case is known as the Doctrine of Last Clear Chance. It is permissible to use the doctrine only after we first find, and you may not use it unless and until you first shall have found, that in the events leading up to the accident in question both the plaintiff and defendant were negligent.
>
> "The Doctrine of Last Clear Chance may be invoked if, and only if, you find from the evidence:
>
> "First: That the plaintiff was in a position of danger and, by his own negligence became unable to escape from such position by the use of ordinary care, either because it became physically impossible for him to escape or because he was totally unaware of the danger;
>
> "Second: That defendant knew that plaintiff was in a position of danger and further knew, or in the exercise of ordinary care should have known, that plaintiff was unable to escape therefrom;
>
> "Third: That thereafter defendant had the last clear chance to avoid the accident by the exercise of ordinary care but failed to exercise such last clear chance, and the accident occurred as a proximate result of such failure.
>
> "If all the conditions just mentioned are found by you to have existed with respect to the accident

> in question, then you must find against the defense of contributory negligence, because under such conditions the law holds the defendant liable for any injury suffered by the plaintiff and proximately resulting from the accident, despite the negligence of the plaintiff."

Trial counsel discussed the appropriateness of the last clear chance instruction in Chambers with the trial judge. [R. T. 884, lines 8-14.] After conferring in Chambers the court requested trial counsel to discuss the instruction on the record. Counsel for defendant objected to the giving of the last clear chance instruction on the ground there was not substantial evidence to support each of the required elements of the doctrine of last clear chance. [R. T. 893-899; 905-908.] Counsel for defendant formally objected to the giving of the instruction, both at the time that counsel discussed it in the absence of the jury with the trial judge [R. T. 908, lines 18-19] and immediately prior to the time the jury retired to commence deliberations. [R. T. 1018, line 19, to 1019, line 14.] The objection made at the latter time was based upon the lack of substantial evidence to support each of the necessary elements of the doctrine of last clear chance and upon the written Memorandum of Points and Authorities regarding last clear chance which had been filed with the trial court the previous day. [R. T. 52.]

IV.

QUESTIONS PRESENTED.

1. Whether or not the trial judge committed prejudicial error in giving the last clear chance instruction to the jury.

V.

ARGUMENT.

GIVING THE LAST CLEAR CHANCE INSTRUCTION IN THIS CASE WAS PREJUDICIAL ERROR ENTITLING DEFENDANT TO A NEW TRIAL.

A. Summary of Argument.

There must be "substantial evidence" to support a favorable finding on each of the three required elements of the last clear chance formula. Evidence may not be considered as "substantial" for this purpose unless it is reasonable, credible, and of solid value. In the absence of such evidence on even one element of the formula the doctrine does not apply and it is prejudicial error for the trial court to instruct the jury on the doctrine.

Appellant concedes that there is substantial evidence to support the first two elements of the doctrine, but contends that on the third, and crucial element, there is a fatal defect of substantial evidence. In this case, plaintiff was not in a position of danger until he stepped forward from his position of safety at the bottom of the ladder on to the railroad tracks. Since defendant's employees had already applied the train's brakes before the plaintiff stepped forward on to the tracks without avoiding the accident, it was impossible for defendant to have a last clear chance to avoid the accident in the exercise of ordinary care.

The all important time-interval was not present. A period of time for the defendant to act in exercising its last and clear chance which involves only a few seconds, or requires a splitting of seconds, is not sufficient to bring the last clear chance doctrine into operation.

Accordingly, the trial court erred in instructing the jury on the doctrine of last clear chance and defendant is therefore entitled to a new trial.

B. There Was Not Substantial Evidence to Support the Three Elements of the Last Clear Chance Doctrine.

There must be "substantial evidence" to support a favorable finding on each of the required elements of the doctrine of last clear chance and if any one of these elements is absent, the doctrine does not apply, the case is governed by the ordinary rules of negligence and contributory negligence, and it is error for the trial court to instruct the jury concerning the doctrine of last clear chance.

Doran v. City and County of San Francisco, supra, etc.

Several decisions of California Appellate courts have considered the meaning of the word "substantial" when used as a limiting adjective in the phrase "substantial evidence." In the *Doran* case, *supra,* the court's opinion refers to the testimony of plaintiffs "that the bus was still at the corner (about 120 feet away) and was just starting to move at the time that plaintiffs crossed the street, is inherently improbable as it cannot be reconciled with the happening of the accident. Such testimony therefore cannot be deemed to be substantial evidence on that subject." The remarkable similarity between the plaintiffs' testimony in the *Doran* case and the plaintiff's testimony in this case cannot be denied. Mr. Munoz's testimony that he looked at the train four separate times and on each occasion it was standing still 100-150 feet away, but that the train hit him after he took only two or three steps forward is likewise "inherently improbable" and cannot be deemed to be "substantial evidence" following the reasoning of the court in the *Doran* case.

The District Courts of Appeal have lent meaning to the phrase "substantial evidence" in several cases. In a 1960 case involving a collision between a minor riding a bicycle and an automobile, the defendant driver of the automobile testified at time of trial that only a few seconds elapsed between the time she saw the child and the full stop of her automobile. In her deposition she had previously testified she thought the interval of time was about thirty seconds. The trial court refused an instruction on last clear chance and the plaintiff appealed, contending that because of the 30-second deposition testimony of defendant it was clear that defendant had indeed had a last clear chance to avoid the accident. The District Court of Appeal affirmed the judgment below for defendant and in reviewing the testimony stated:

> ". . . a realistic view of the situation indicates only several seconds could have elapsed as respondent stated at trial. The rule requiring the evidence to be viewed in favor of the doctrine does not require reality to be ignored, since there is the substantiality requirement. * * * under the most favorable realistic view of the evidence only a few seconds elapsed between respondent seeing the child and impact."

Fambrini v. Stikkers (1960), 183 Cal. App. 2d 235, 240, 244, 6 Cal. Rptr. 833.

Thus, it appears that in order for evidence to be the "substantial evidence" required for each of the necessary elements before the instruction may be given, the evidence must be "realistic". It is obvious that the court in that case did not consider that "any" evidence should be considered as "substantial" evidence, but that the evidence must be "realistic" in order to be so considered.

A different District Court of Appeal came to a similar conclusion some months later in considering the case of *Todd v. Southern Pacific Company.* In that case the plaintiff's automobile appeared from behind a stationary box car when about thirty feet from the point of impact. The fireman on defendant's engine immediately yelled a warning to the engineer, who applied the brakes, but the collision occurred. The trial court refused to give the last clear chance instruction and a judgment for defendant railroad resulted. On appeal, plaintiff's argument that the last clear chance doctrine was applicable rested upon mathematical calculations which were in turn based upon estimates of speed and distance by various witnesses. Plaintiff also contended that the testimony of defendant's witnesses was not credible and that this lack of credibility should give rise to application of the last clear chance doctrine. The appellate court disposed of these two claims in the following language:

> "The case is one peculiarly appropriate for application of the principle that 'mere doubt as to the credibility of defendant or the accuracy of his estimate of distance would not amount to affirmative evidence of any material fact'. (citations omitted). Mathematical calculations, when based upon reasonably precise data, are most helpful to a court or jury, but when they are based upon

the vague type of assumptions that appellant is compelled to make here, they are dangerously deceptive. To hold that in this case a jury could find that the defendants had a 'last clear chance' to avoid the accident would be to read into those simple words a meaning that they do not have and were never intended to have."

Todd v. Southern Pacific Company (1960), 184 Cal. App. 2d 376, 384; 7 Cal. Rptr. 448.

The *Todd* case stands for the proposition that failure to believe direct testimony cannot be considered as the equivalent of "substantial evidence" of any fact in opposition to the direct testimony. The case also sounds a note of caution in dealing with mathematical calculations as evidence which must meet the test of "substantial evidence".

Still another District Court of Appeal, in attempting to explain the phrase "substantial evidence" turned to dictionary definitions in the following language:

"There must be substantial evidence present to justify the question of last clear chance going to a jury, and the existence of substantial evidence justifying the application of the doctrine is a question of law. (*Doran v. City & County of San Francisco,* 44 Cal. 2d 477 (283 P. 2d 1); *Nippold v. Romero,* 145 Cal. App. 2d 235 (302 P. 2d 367).) In *Estate of Teed,* 112 Cal. App. 2d 638, 644 (247 P. 2d 54) the court said with reference to substantial evidence as follows:

" 'Webster's International Dictionary defines the word as follows: "Consisting of, pertaining to, of the nature of or being, substance, existing as a substance; material." Its meaning is further defined as "not seeming or imaginary, not illusive, real, true; important, essential, material, having good substance; strong, stout, solid, firm." The word means "considerable in amount, value or the like; firmly established, solidly based." Synonyms are "tangible, bodily, corporeal, actual, sturdy, stable."

" ' "Substantial evidence," according to Words and Phrases, Fifth Series, page 564, . . . is evidence "which, if true, has probative force on the issues." It is more than "a mere scintilla," and the term means "such relevant evidence as a reasonable man might accept as adequate to support a conclusion." . . . "*improbable conclusions* drawn in favor of a party litigant through the sanction of a jury's verdict *will not be sustained where testimony is at variance with physical facts and repugnance is material and self-evident.*" (Emphasis added.)

" 'The sum total of the above definitions is that, if the word "substantial" means anything at all, it clearly implies that *such evidence must be of ponderable legal significance.* Obviously the word cannot be deemed synonymous with "any" evidence. *It must be reasonable in nature, credible, and of solid value; it must actually be "substantial" proof of the essentials which the law requires in a particular case.'* (Emphasis added.)"

Dyer v. Knue (1960), 186 Cal. App. 2d 348; 8 Cal. Rptr. 753.

Thus, we see that "substantial evidence" must be more than just "any" evidence and must have substance, reasonable, credible, and of solid value.

In the 1961 case of *Di Sandro v. Griffith,* the trial court refused to instruct on last clear chance and the judgment for defendants was affirmed on appeal. The opinion contains a good summary of the basic rules applicable in a last clear chance instruction case. In discussing the requirement that evidence be "substantial", the court stated:

> "Although conflicting as well as non-conflicting evidence may be relied upon in support of a request for an instruction on a relevant legal theory, such evidence must be of that substantial character required by law to support a verdict. In *Estate of Teed,* 112 Cal. App. 2d 638, 644 (247 P. 2d 54), the court said: '. . . if the word "substantial" means anything at all, it clearly implies that such evidence must be of ponderable legal significance. Obviously the word cannot be deemed synonymous with "any" evidence. It must be reasonable in nature, credible, and of solid value; it must actually be "substantial" proof of the essentials which the law requires in a particular case.' "

The court went on to say that unless the facts can be established by some substantial evidence, the last clear chance doctrine does not apply. "Mere speculation will not suffice." *Di Sandro v. Griffith,* 188 Cal. App. 2d 428, 435, 436; 10 Cal. Rptr. 595.

Again, the court in this decision emphasized that not just "any" evidence can be considered as "substantial", but insists that the evidence must be reasonable, credible and of solid value.

In examining the record in this case, it should be kept in mind that each element of the doctrine must be supported by substantial, realistic, credible, reasonable evidence, or the instruction was erroneously given.

C. The Elements of Last Clear Chance.

This portion of the argument will discuss in turn each of the three necessary elements of the doctrine of last clear chance, and the facts of this case as they apply to the elements.

1. The First Element.

"The doctrine of last clear chance may be invoked if, and only if, the trier of the facts finds from the evidence: (1) that the plaintiff was in a position of danger and, by his own negligence, became unable to escape from such position by the use of ordinary care, either because it became physically impossible for him to escape or because he was totally unaware of the danger;"

> *Brandelius v. City and County of San Francisco, supra.*

a. When did plaintiff reach a position of danger?

All of the eye-witnesses agree that plaintiff walked out of building "H" onto the loading dock, across the loading dock to the vicinity of the ladder, down the ladder to the ground, and thence walked over across the tracks. In determining when plaintiff first was in a position of danger it is helpful to look at other cases decided in the California Appellate courts dealing with this problem.

In one of the leading cases decided by the California Supreme Court involving the doctrine of last clear chance the plaintiff pedestrians crossed a City street in the middle of the block. They testified that they were aware of the approach of a bus and that even when they were in the center of the street they were aware of the bus' approach. The plaintiffs continued to walk forward however, and were struck by the bus. The trial court gave an instruction on the doctrine of last clear chance and then after a jury verdict for the plaintiff gave the defendant a new trial solely on the ground that it had erred in giving that instruction. The plaintiff appealed and the Supreme Court affirmed the action of the trial judge and held that the last clear chance instruction should not have been given.

With relationship to the phrase "position of danger" as the same is incorporated in the first element of the last clear chance doctrine, the Court stated as follows:

> "Plaintiffs were not in a position of danger nor in a state of helplessness within the meaning of the doctrine until they had reached a point where they could no longer escape by the exercise of ordinary care. As was said in *Dalley v. Williams, supra,* 73 Cal. App. 2d 427 at page 435, 'the term "place of safety" ordinarily includes the position of the plaintiff while he is *merely approaching* the place of danger and so long as he is *only approaching* but is not actually *in* a position of danger the plaintiff cannot invoke the doctrine . . . plaintiffs' state of helplessness was cre-

ated only by their act of leaving their position of safety near the center of the street and stepping directly into the path of danger.' "

Doran v. City and County of San Francisco, supra, at page 489.

In 1952 the California Supreme Court considered a case in which the decedent motorist approached an intersection at which a stop sign called upon him to stop his automobile, but he failed to do so and continued into the intersection to the point of impact without decreasing speed. In discussing the elements of the last clear chance doctrine the Court observed that:

"Decedent was not in a position of danger until he arrived at a point at which he could no longer stop or slow down in time to avoid a collision."

Rodabaugh v. Tekus (1952), 39 Cal. 2d 290, 294; 246 P. 2d 663.

The District Court of Appeal in 1957 considered a case involving last clear chance where the decedent motorist had stopped at a spur track, then proceeded to a point 6 to 8 feet from the first track of the main line railroad tracks, and there stopped. He then proceeded to drive onto the tracks and was struck by the train. The trial court had refused to give an instruction on last clear chance and on appeal, judgment for defendants was affirmed. The Appellate Court made the statement that when the decedent had stopped at a point approximately 6 to 8 feet from the railroad tracks that "he was then in no position of danger."

Chambers v. South Pacific Co. (1957), 148 Cal. App. 2d 873, 877; 307 P. 2d 662.

The case of *Kavner v. Holzmark* decided in 1960 involved a factual situation quite similar to this case. The plaintiff in that case was crossing a city street in the middle of the block. Defendant was driving his automobile at a speed of 25 to 30 miles per hour and testified he first saw plaintiff when plaintiff was 40 feet ahead of him, directly in front of his automobile, and that he immediately applied the brakes but nevertheless hit plaintiff. Another witness was driving a car following defendant's car and testified that he saw the plaintiff crossing the street *before* stepping into the path of defendant's car. The trial court refused to instruct the jury on last clear chance. Judgment was for defendant and plaintiff's counsel contended on appeal that defendant must have seen the plaintiff in a position of peril earlier than he testified he did because the second motorist had seen plaintiff crossing the street. In reviewing this line of argument the Appellate court stated that the mere fact that the plaintiff was crossing the street did not place him in danger "because a pedestrian can stop at any moment". The Court further concluded that when the second motorist witness saw the plaintiff "he was not in danger".

Kavner v. Holzmark (1960), 185 Cal. App. 2d 138, 144; 8 Cal. Rptr. 145.

Applying the rule of these cases to the present facts, it appears that plaintiff was not in a position of danger until he reached a position from which he could not escape the accident in the exercise of ordinary care. It is submitted that even after plaintiff descended the ladder and stood on the ground within one foot of the ladder [R. T. 268], that he was not yet in a position of danger, since at that point he could have easily avoided the accident, in the exercise of ordinary care, simply by standing still and not walking forward across the tracks. That there was adequate room for a person to stand safely in that position appears from the testimony of Engine Foreman Baker [R. T. 755] and from an examination of the photograph, Defendant's Exhibit I. [R. T. 229.] Plaintiff's position at the foot of the ladder is analogous to the position of the pedestrians in the *Doran* and *Kavner* cases, and the motorist in the *Chambers* case.

It was prejudicial error for the trial court to instruct on the last clear chance doctrine unless there was substantial evidence to show that *after* plaintiff left his position of safety at the bottom of the steps, that the defendants had a clear chance to avoid the accident in the exercise of ordinary care.

> *Doran v. City and County of San Francisco, supra.*

b. Was Plaintiff Negligent?

It appears obvious that when plaintiff entered a position of danger by stepping onto the tracks from his position of safety at the bottom of the ladder, that he was negligent in so doing and that this requirement of the last clear chance doctrine is clearly met.

c. Was Plaintiff Unable to Escape From the Position of Danger?

Once plaintiff left his position of safety at the bottom of the ladder and began to walk forward across the tracks, his collision with the train was inevitable. Plaintiff testified that he did not see the train moving at any time before the impact [R. T. 269], and that just before walking forward on the tracks he looked at the train and it was still 100-150 feet away. [R. T. 264-266.] It appears from this testimony that plaintiff was totally unaware of the imminent approach of the train, whether you believe his testimony as summarized above, or the testimony of Engine Foreman Baker that the plaintiff did not even look in the direction of the train after getting to the bottom of the ladder. [R. T. 574.]

In summary it is concluded that the first element of the doctrine of last clear chance was satisfied by substantial evidence showing that as soon as plaintiff stepped forward from his position of safety at the bottom of the ladder, he entered a position of danger, that he did so through his own negligence, and that he was unaware of the approach of the train.

2. The Second Element.

The second element of the doctrine as stated by the Supreme Court of California in the *Brandelius* case is as follows:

> "The doctrine of last clear chance may be invoked if, and only if, the trier of the facts finds from the evidence . . . (2) that defendant knew that plaintiff was not in a position of danger and further knew, or in the exercise of ordinary care should have known, that plaintiff was unable to escape therefrom;"

a. Defendant's Knowledge That Plaintiff Was in a Position of Danger.

Appellant concedes that when plaintiff stepped forward from his position of safety at the bottom of the ladder into a position of danger on the railroad tracks that it was obvious to Engine Foreman Baker that plaintiff was then in a position of danger.

b. Defendant's Knowledge That Plaintiff Could Not Escape from the Position of Danger.

There was no testimony bearing directly on the point whether plaintiff could escape from his position of danger on the tracks or not. It is certainly arguable that any experienced railroad employee would realize or should, in the exercise of ordinary care, realize that a person who walks in front of a moving railroad car which is less than 10 feet away [R. T. 755] and who is not looking in the direction of the on-coming railroad car [R. T. 574], will probably not be able to escape from his position of danger.

In summary, although there is little direct testimony bearing on this second element of the doctrine of last clear chance, Appellant concedes that there is substantial evidence to support this element, bearing in mind the conclusion that plaintiff was not in a position of danger until he stepped forward onto the tracks.

3. The Third Element.

The third element of the doctrine of last clear chance as stated by the Supreme Court of California is as follows:

> "The doctrine of last clear chance may be invoked if, and only if, the trier of the facts finds from the facts . . . (3) that thereafter defendant had the last clear chance to avoid the accident by the exercise of ordinary care but failed to exercise such last clear chance and the accident occurred as a proximate result of such failure."

As discussed above, plaintiff was not in a position of danger until he stepped forward from his place of safety at the foot of the ladder onto the tracks. Let us consider what possible actions might be taken by the defendants' employees *after this action by the plaintiff* in the exercise of ordinary care to avoid the accident.

a. Engineer Malone.

Engineer Malone testified that when he first saw the plaintiff walking on the ramp [R. T. 444-445], he had no reason to believe plaintiff would attempt to cross the tracks [R. T. 448] and he fully expected plaintiff to stop. [R. T. 526.] That he was justified in so concluding as shown by the case of *Kavner v. Holtsmark, supra,* where plaintiff pedestrian was jay-walking across the street between intersections and was hit by defendants' car. A second motorist testified he saw plaintiff walking across the street but did not see any danger that would attract attention. In commenting upon this testimony the Appellate Court stated:

> ". . . this testimony points to an applicable principle which should not be overlooked in this case. . . . "'(6) The general rule is that every person will perform his duty and obey the law, and in the absence of reasonable ground to think otherwise it is not negligence to assume that he is not exposed to danger which comes to him only from violation of law or duty by such other persons.' (citations omitted). (7) "It is axiomatic that in the absence of conduct to put him on notice to the contrary a person is entitled to assume that others will not act negligently or

> unlawfully." (*Porter v. California Jockey Club, Inc.*, 134 Cal. App. 2d 158, 160 (285 P. 2d 60.) This rule is peculiarly applicable to the case of a pedestrian who approaches the path of a moving vehicle. (8) *Dalley v. Williams*, 73 Cal. App. 2d 427, 436 (166 P. 2d 595): "It has been held, in a certain class of cases, that if a defendant, while still a considerable distance away from the accident, sees the plaintiff approaching the place of danger, he has a right to assume, until the circumstances apprise him to the contrary, that the plaintiff will stop before reaching the place of danger." (Citations omitted.)
>
> *Kavner v. Holzmark, supra*, etc., at page 145.

In a recent Supreme Court of California case where the plaintiff rode his motorcycle into the path of a train, the opinion refers to the duty of the railroad employees in the following language:

> "When the fireman and switchman first saw plaintiff, they had no reason to believe he would be unable to stop safely or that he was inattentive and would not learn of the danger by observing the railroad crossing sign painted on the platform, the crossing sign on the shoulder of the road, and the train itself. As plaintiff continued to approach the crossing, the train crew was not required to assume that he would be unable to escape the danger until he was so close to the cars that he could not stop or turn aside. When he had reached such a position, any warning would have been futile."
>
> *Hildebrand v. L. A. Junction Railway Co.* (1960), 53 Cal. 2d 826, 830; 3 Cal. Rptr. 313.

Engineer Malone further testified that he saw the plaintiff step off of the platform [R. T. 445] and that he stopped the train as soon as the plaintiff went out of sight. [R. T. 445.]

After plaintiff stepped forward from his position of safety at the foot of the ladder into a position of danger the only thing the Engineer could have done to avoid the accident would be to apply the brakes of the train. However, as shown above, he did apply the brakes of the train even before plaintiff reached his position of safety at the bottom of the ladder, to wit, at the time the plaintiff stepped down off of the platform and went out of sight. Since the application of brakes at a time before plaintiff reached his position of safety at the foot of the ladder was not timely enough to stop the train before it hit plaintiff, it should be obvious that had the Engineer applied the brakes *after* plaintiff deserted his place of safety at the foot of the ladder, that the accident could not have been avoided by the Engineer, in the exercise of due care.

b. Engine Foreman Baker.

The only way in which Engine Foreman Baker could have acted to avoid the accident, would have been to issue warnings to the plaintiff not to proceed on to the tracks, or to warn the Engineer to stop the train. Baker testified that the train was 10 to 12 feet south of the ladder area at the time plaintiff appeared at the ladder and began to descend it. [R. T. 755.] According to plaintiff's testimony, he had a conversation with Baker while standing at the top of the ladder. Had Baker at that time ordered plaintiff to remain in that position, it is possible that the accident might have been avoided, but Baker's failure to do so, even if considered to have been negligent, cannot apply to the doctrine of last clear chance since plaintiff was at that time in a position of safety, as discussed above.

Baker testified that while plaintiff was on the ladder and arriving at the ground, he began to yell "No, No, No" at the plaintiff [R. T. 753], and this testimony was corroborated by Shirley Lawton [R. T. 399], although plaintiff testified it sounded like "Go, Go, Go" to him. [R. T. 263.] This warning, sounded by Baker before plaintiff even left his place of safety on the ground at the foot of the ladder, did not deter plaintiff from proceeding into the path of the train. So it appears that had this warning been deferred until after plaintiff left his position of safety at the foot of the ladder and proceeded to a position of danger on the tracks, that a similar warning at that time would not have afforded the defendant a clear chance to avoid the accident in the exercise of ordinary care.

In so far as Baker had an opportunity to stop the train by giving a stop sign to the Engineer, his testimony is that he gave such a stop sign while plaintiff was descending the ladder and arriving at the ground at the foot of the ladder. [R. T. 756.] Engineer Malone testified that he saw Baker giving a violent stop signal just at the time the plaintiff started to step off the platform. [R. T. 444-446.] And Switchman Trembley said he saw Baker giving a violent stop signal at the time the plaintiff stepped off the platform. [R. T. 685.]

Engineer Malone further testified that he applied the brakes in response to his own observation of the plaintiff's conduct at the same time that Baker was giving the stop signal. [R. T. 445.] Since the stop sign given by Baker as the plaintiff was descending from the platform was not timely enough to avoid the accident, it would seem beyond argument that a stop signal given by Baker *after* the plaintiff stepped forward from his position of safety at the foot of the ladder to a position of danger on the tracks would not have afforded defendant a clear chance to avoid the accident in the exercise of ordinary care.

c. Other Railroad Employees.

Switchman Trembley was standing on the ground between the track and the dock [R. T. 681] at a point about 300 feet from the electric door [R. T. 680] at the time of the accident. He saw the plaintiff step off the dock in front of the train at a time when he estimated the front end of the train was 10 to 15 feet from the ladder [R. T. 683-695] although he admitted on cross-examination the distance could have been as much as 20 feet. [R. T. 699.] The observations and actions of Trembley did not give the defendant any opportunity to avoid the accident after the moment that the engine passed by his position on the ground, since the Engineer, who was the only person who could have applied the brakes and stopped the engine and cars, could not see him after the engine passed him by. [R. T. 703-704.]

Fireman Gene Fischer was seated on the left side of the engine cab [R. T. 718] and did not see the injured man at any time before the accident. [R. T. 720.]

Switchman Harold Williams was standing somewhere between the gate and the end of the dock [R. T.

623], was not looking at the train at the instant of the accident [R. T. 623] and did not see the plaintiff at any time before the accident happened.

Thus, it can be seen that if defendant did in fact have *any* last clear chance to avoid the accident after plaintiff was in a position of danger on the tracks, it could only have been through the actions and efforts of Engine Foreman Baker or Engineer Malone as discussed above.

It is concluded that there is a lack of substantial evidence to support the third necessary element of the doctrine of last clear chance, and therefore, it was prejudicial error for the trial court to give that instruction to the jury.

d. The Essential Time Interval Was Not Present in This Case.

The Supreme Court of California in the leading case on last clear chance, in 1957, restated the formula for the application of last clear chance, and stated that the main purpose in restating the formula "has been to state more clearly the vital time element involved in the application of the doctrine," and noted that "the time element is the all important factor."

The court further stated that:

> "The time for the exercise by defendant of any last clear chance as defined in the formula commences only at such time as defendant has both (1) actual knowledge of the injured person's 'position of danger' and (2) actual or constructive knowledge that the injured person 'cannot escape from such situation.' "
>
> *Brandelius v. City and County of San Francisco, supra.*

1. Last Clear Chance Does Not Mean a "Splitting of Seconds".

A case decided by the District Court of Appeal in 1928 has been widely followed and quoted in subsequent decisions by California Appellate courts. In that case the defendant's train was proceeding at 45 miles per hour when a truck drove onto the crossing when the train was approximately 150 feet distant. The train brakes took hold approximately 75 feet before the impact. The trial court granted the defendant's motion for a nonsuit and on appeal plaintiff argued that the doctrine of last clear chance should apply. The Appellate court, in reviewing the evidence, concluded that the motorman had made the brake application "within practically one second of time." The court then discussed the time element of the doctrine of last clear chance in the following language:

> "Certainly the doctrine of last clear chance never meant a splitting of seconds when emergencies arise. There seems still to be some misconception of this doctrine of last clear chance. It was not devised as a last resort to fasten liability on defendants. Like the body of the law of negligence, to which the doctrine is appended, the test remains as that of ordinary care under all of the circumstances. The law in many of its workings indicates great charity and solicitude for individual rights. It says to a negligent plaintiff that in spite of his lack of caution he will be protected against wanton, wilful or avoidable harm. But, on the other hand, it penalizes no innocent person. We are not to tear down the facts of a case and rebuild the same so that, by a trimming down

and tight-fitting operation, something can be constructed upon which may be fastened the claim of last clear chance. The words mean exactly as they indicate, namely, last *clear* chance, not possible chance."

Bagwill v. Pacific Electric Ry. Co., 90 Cal. App. 114, 121; 265 Pac. 517.

The language just quoted from the Bagwill opinion was cited with approval by the Supreme Court of California in a 1952 decision. In that case the defendant motorist saw decedent's automobile approaching at right angles to the intersection, but assumed that decedent would stop for a stop sign. When decedent was within 75 to 100 feet and had not slowed down, defendant started to apply his brakes gently, still thinking the decedent would stop. The defendant applied his brakes in full at a distance of 35 feet. The decedent never did slow his speed before the impact. The trial court instructed the jury as to last clear chance and a jury verdict was returned for the plaintiff. The trial court then granted the defendant's motion for judgment notwithstanding the verdict. The Supreme Court affirmed the action of the trial judge. The plaintiff argued on appeal by a series of mathematical calculations. The court concluded that the record was devoid of substantial evidence to sustain the application of the last clear chance doctrine and that it was error for the trial court to instruct the jury with respect thereto.

Rodabaugh v. Tekus, supra.

The analogy between the fact situation in the *Doran* case and the actions of plaintiff in this case is clear. Plaintiff Munoz was in a position of safety at the foot of the ladder and took only two or three steps forward before being hit by the train. The rule of the *Doran* case quoted above has been referred to and followed many times and was cited and approved by the Supreme Court of California in a very recent case.

> *Shahinian v. McCormick* (May 1963), 59 A. C. 575, 589.

The Supreme Court had previously stated in the *Rodabaugh* case that:

> "The doctrine of last clear chance should not be applied to the ordinary case in which the act creating the peril occurs practically simultaneously with the happening of the accident and in which neither party can fairly be said to have had a last clear chance thereafter to avoid the consequences. To apply the doctrine to such cases would be equivalent to denying the existence of the general rule which makes contributory negligence a bar to recovery."
>
> *Rodabaugh v. Lekus, supra* (1952), 39 Cal. 2d 290, 295; 246 P. 2d 663.

The rule thus enunciated in the *Rodabaugh, Doran* and *Shahinian* cases by the Supreme Court of California has been followed and quoted in several District Court of Appeal decisions.

> *Clairda v. Aguirre* (1957), 156 Cal. App. 2d 112, 116; 319 P. 2d 20;
>
> *Welsh v. Gardner* (1960), 187 Cal. App. 2d 104, 110.

In a 1962 case involving an automobile—train collision at a railroad crossing the Court stated as follows:

> "The doctrine pre-supposes time for effective action (citation omitted); and does not contemplate split second decisions. (Citations omitted) The doctrine of last clear chance does not apply when the emergency arises suddenly and there are only a few seconds to avoid a collision and where there is no substantial evidence that the defendant had the time to avoid the collision.
>
> *Miller v. Western Pacific R.R. Co.* (1952), 207 Cal. App. 2d 581, 605; 24 Cal. Rptr. 785.

3. Last Clear Chance Does Not Apply Unless the Chance the Defendant Has to Avoid the Accident is Both the "Last" Chance and Is a "Clear" Chance.

Some of the cases have discussed the time interval requirement in language that at first glance seems to be a parody of the doctrine itself. This language was first employed in the *Doran* case as follows:

> "The underlying basis for the application of this doctrine, which permits an injured person to recover despite his continuing and contributory negligence, is that defendant was afforded a *last* chance and a *clear* chance to avoid the accident *after* defendant had discovered that plaintiff was in a helpless situation. It is based upon the hu-

manitarian concept that the fault of the injured party should not relieve the erring defendant of his liability if defendant is afforded such last clear chance to avoid the accident after actually discovering that it is too late for the injured party to avail himself of any similar chance. (11) But the chance which is afforded to defendant must be something more than a bare possible chance. It must be not only a *last* chance but a *clear* chance, following actual knowledge of plaintiff's helplessness, to avoid the accident by the exercise of ordinary care; and, by its very terms, the doctrine excludes from its application any case in which plaintiff's state of helplessness, resulting from his own negligence, is created so nearly simultaneously with the happening of the accident that neither party may be fairly said to have thereafter a last clear chance to avoid the accident."

Doran v. City and County of San Francisco, supra, at pages 487-488.

The tendency of the California Appellate Courts to discuss and enforce this requirement has become pronounced enough that a 1960 District Court of Appeal decision remarked upon it in the following language:

"The recent California cases reflects this emphasis upon the requirement that the opportunity to avoid the accident must be actual and 'clear' ".

Bell v. Huson (1960), 180 Cal. App. 2d 820, 827; 4 Cal. Rptr. 716.

A very recent case stated "the doctrine applies only to those instances where the chance offered the defendant to avoid the accident by the exercise of ordinary care is a *clear* chance."

> *Garcia v. Hoffman* (Jan. 30, 1963), 212 A. C. A. 540, 551.

4. The Time Interval Available to the Defendant to Exercise The Last Clear Chance Must Be a Substantial Period of Time.

In a 1960 case involving a collision between an automobile and a jay-walking pedestrian, the Appellate Court affirmed judgment for defendant after the trial judge had refused to instruct on last clear chance. In discussing the doctrine of last clear chance the decision states:

> "A substantial period of time must elapse after defendant has gained knowledge that plaintiff is in danger before defendant can be said to have had the last clear chance."
>
> *Kavner v. Holtzmark, supra* (1960), 185 Cal. App. 2d 138, 144; 8 Cal. Rptr. 145.

We conclude from an examination of the cases cited above that the time in which the defendant may be considered to have a last clear chance to avoid the accident does not commence until the defendant has actual knowledge of the plaintiff's predicament, and actual or constructive knowledge of the plaintiff's ability to escape it. When these conditions are met, the defendant thereafter must have a *substantial period of time* in which to act to avoid the accident in the exercise of ordinary care. A period of time which requires the "splitting of seconds", which consists of only a few seconds, which relates to practically simultaneous occurrences, or which does not afford the defendant a *clear* chance is not sufficient to bring the doctrine into play. Applying these various descriptions of the time interval test to the facts of this case, defendant submits that it did not have *any* chance to avoid the accident after plaintiff stepped forward from his position of safety at the bottom of the ladder into a position of danger, much less a *last* and *clear* chance.

In fact defendant was in a position similar to that of the defendant in the *Hickambottom* case where the defendant immediately applied his brakes upon seeing the decedent's vehicle but the collision occurred none the less. The Appellate Court held the last clear chance doctrine to be inapplicable and commented as follows:

> "In view of the fact that defendant did realize his danger and made a determined effort to stop, it would be wholly held logical and unreasonable for the jury to have found upon the circumstantial evidence that there was a considerable interval of time during which defendant realized the danger and made no effort to avoid the accident."

Hickambottom v. Cooper, supra (1958), 163 Cal. App. 2d 489, 494 and 495; 329 P. 2d 609.

VI.
CONCLUSION.

In view of the authorities, facts and argument set forth above, Appellant submits that it was prejudicial error for the trial judge to instruct the jury in this case on the last clear chance doctrine. That the giving of the instruction materially effected the outcome of the case is clear in view of the fact that on March 21, 1963, at 2 P.M., the jury requested that the instruction be re-read [R. T. 1032], and the instruction was in fact re-read to the jury twice. [R. T. 1035-1039.]

Accordingly, Appellant submits that the trial judge should have granted its motion for judgment after trial, or in the alternative, a new trial, and respectfully requests this Court to order a new trial in the case.

Respectfully submitted,

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Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

M. W. Vorkink,

No. 18760

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

UNION PACIFIC RAILROAD COMPANY,

Appellant,

vs.

JUAN MUNOZ and MARIA MUNOZ,

Appellees.

On Appeal From the United States District Court for the Southern District of California, Central Division.

BRIEF FOR APPELLEE.

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BRIEF FOR APPELLEE.

I.

JURISDICTIONAL STATEMENT.

This action is one based on negligence arising under California law, and jurisdiction in the Court below rests on the ground of diversity of citizenship between the parties, under the statutory authorization of 28 U. S. C., Sec. 1332. Final judgment having been entered in favor of plaintiffs in the Court below, jurisdiction is invested in this Court pursuant to 28 U. S. C., Secs. 1291 and 1294(1).

II.

STATEMENT OF THE CASE.

A. Factual Summary.

Plaintiff was an employee of Continental Can Co., in Los Angeles, California. The defendant railroad company maintained a spur track into the Continental yards. This track ran parallel to a loading dock or platform. On the evening in question, the defendant railroad company was pushing four unlighted gondola cars into the yard on this track. The bell was not ringing and the man who should have been riding the lead end of the lead car (the point) got off of the point before the move was completed (all in violation of the company rules).

The defendant knew that the tracks crossed the customary path taken by Continental employees in going to their eating place. Defendant had not posted any warnings or erected safeguards at this point.

At supper time, 7:30 P.M. (after dark), December 7, 1961, plaintiff left his working place to go to supper in Building O. He took the customary path to the eating room, which was across the platform, down the ladder and across the tracks.

Plaintiff walked across the platform with a lunch pail under his arm, and when at the top of the ladder looked to his left and saw a train on the spur track apparently standing still about 100 to 150 feet away, with no lights, no bell ringing, and no whistle blowing. He saw a man get off from the lead car and stand on the ground. Engine Foreman Baker was standing on the platform about 4-5 feet away from him with a lamp in his hand. Plaintiff had a brief conversation with Baker concerning the weather. He then proceeded to descend the ladder to the tracks.

Baker did not caution, warn, nor make any attempt to stop or delay plaintiff at that time or at any time prior to the time plaintiff walked onto the tracks.

Plaintiff descended the ladder to the ground. He turned to his right (he was now facing the ladder) and saw the train apparently still standing still. Then he turned around, took 2 or 3 steps towards Building "O" and Baker yelled "Go, go". Plaintiff did not understand what he was saying. He waited at the bottom of the ladder for one or two seconds, walked onto the tracks and was hit by the end of the lead car. During all of this time he heard no bell, whistle or any other noise of the train. He was totally unaware that the cars were moving, having been lulled into a sense of security by the absence of a ringing bell, absence of light on the end of the cars, and Baker standing near him on the platform. The train traveled 4-6 feet after hitting him.

On previous occasions when plaintiff traversed this pathway to Building "O", he always had seen a man with a light riding the point if the train was moving and on those occasions the engine bell was always ringing.

Engineer Malone claims he saw plaintiff while he was walking for a distance of 10 feet towards the edge of the platform where the ladder was located. He also admits that at the slow speed (2-4 miles per hour) at which he was traveling he could stop in 5 to 8 feet and the brakes could be applied immediately. He did not apply the brake until after plaintiff was on the tracks. He admits he was always looking straight ahead and had no obstructions to his view. There was evidence from defendant's switchman, Trembley, that plaintiff stepped off at the ladder when the front end of the train was possibly 20 feet from the ladder.

Malone admitted that he *did not* blow the train whistle although one of his hands was not occupied and there was no physical reason why he could not do so.

Switchman Trembley got off the point without any signal to do so from Baker before plaintiff started down the steps of the ladder. He saw plaintiff step off at the ladder when the train was possibly 20 feet from the ladder. Yet he did not signal nor call to anybody, including plaintiff.

Baker admits he saw Trembley get off the lead car when the train was 200 feet away. Baker was carrying a lantern which was swinging and may, therefore, have appeared to the engineer as a come-on signal. He saw plaintiff while plaintiff was on the platform and claims that plaintiff was oblivious of the presence of the train and did not look to his left or right. He claims he yelled "No, no" when plaintiff was near the tracks. He gave conflicting testimony as to when he hollered.

Under the existing circumstances of low speed and lighting conditions, it was difficult to distinguish between trains which are moving and those which are standing still, and especially so, if there was no man riding the point.

As a result of being run over by the wheels of the lead car, plaintiff suffered amputation of both of his legs.

The trial court submitted the case to the jury with the usual instructions on negligence, contributory negligence, and gave the qualified instruction on last clear chance, all in accord with the applicable law of California.

The jury found for the plaintiff and a motion for a new trial was denied.

B. The Factual Summary Is Substantiated by the Excerpts From Testimony Set Out Hereinafter.

1. Plaintiff.

Plaintiff Munoz testified that on the night of the accident he was working inside Building "H" [223, 248],* and at approximately 7:30 P.M., he was relieved to go to supper [224]. He was to eat in the lunchroom in Building "O" [224]. He walked out of Building "H" onto the dock, across the dock to the top of the ladder [225]. He looked to his left and saw the train 100 to 150 feet away standing still [225, 226, 250, 251], without lights [226, 249-250], and saw a man get off from the lead train and stand on the ground [226, 227]. He then looked to his right and saw a man, afterwards identified as Mr. Baker, the engine foreman, standing 4 or 5 feet away *on the platform* with a lamp in his hand [227, 228]. He had a conversation with him about the weather while both of them were on the platform [228, 257].

After this conversation he got on the ladder (facing to the ladder as he descended [229]) and went to the ground, turned to his right and saw the train apparently still standing still [231]. It seemed to him not to have

*Page numbers in brackets refer to Reporter's Transcript.

moved since the first time he saw it [257, 258, 259, 260 and 265]. He then turned around and took 2 or 3 steps toward Building "O", and Baker, on the platform, yelled "Go, go" [231]. He did not know just what he was saying [231] or why he was yelling [232, 263]. Plaintiff turned around toward Baker and saw him still on the platform [232]; he then waited on the bottom of the ladder for one or two seconds before continuing to walk [264]. He took another step and was hit [232]. While walking across the tracks, plaintiff heard no bell ringing or other noise of the train. (Many witnesses corroborated the fact that the bell was not ringing).

On previous occasions when plaintiff saw trains moving in the yard, there was always a man riding the point with a light [270] and the engine bell was always ringing [271, 272].

2. Engineer Malone.

Engineer Malone claimed that he was employed by Union Pacific for 22 years [438] and operated the engine [441], sitting on its right side [438]. The engine, pushing four gondolas, was facing north [439, 484] with dim headlights [440].

When he entered Continental Can premises pushing the gondolas his speed was 4 miles per hour [441] which was unchanged up to the time of the accident [442]; Fireman Fisher was on the left side of the engine [443]; he did not know where Switchman Trembley was [443].

He claimed that Baker was just inside the electric door (which is a few feet from the ladder) [455, 470 and was giving Malone signals with a lantern continuously up to the time of the accident [443, 444].

Baker gave him the signal 2 to 3 times to come forward. He does not recall how far he was from Baker when Baker first signalled him [511], or the distance from Baker when he signalled him the second time [511], except that the point of the train was to the end of the dock [511].

[On deposition, Malone had admitted: The first time Baker gave him a signal to come ahead, the north end of the train was possibly 150 feet away from him (from the electric door) [516] and moved to within 50 feet of the electric door before second signal was given [516]. Prior to the accident Baker was just inside the plant by the electric door, approximately 10 feet from it, when he saw Baker giving violent signals [447]].

He claims he first saw Munoz when Munoz was on the platform 8 feet from the edge of the ramp, 8 or 10 feet south of the ladder [484], and walking towards the edge of the dock [444, 445, 485]. He saw Munoz walk for 8 feet to the edge of the platform [495].

The train was 8 or 10 feet from the ladder when he saw Munoz [446] and approximately 8 feet from the ladder when Munoz stepped off [446].

When Munoz was on edge of platform, Munoz was 10 feet south of the ladder, and approximately 10-12 feet from the electric door [495]. [On deposition Malone admitted: When Munoz was on edge of platform, Munoz was right by electric door [496] and does not know how far the end of the train was from the electric door at the time because he, Malone, was too far away to tell exactly [496]].

He saw Munoz put one hand down on the ramp, on the cement, and step off the platform [445] [contradicted by Baker [771]], which is $3\frac{1}{2}$ to 4 feet high [519], and he claimed that he stopped the train immediately [445]. He saw Munoz carry a lunch pail under his left arm [446] and did observe that he was not looking at the train [446].

The train was going 3 to 4 miles per hour and could stop in 5 to 8 feet [503] and the brakes could be applied immediately either upon seeing a signal of any kind from any other employee [503], or if he chose to apply them.

The train traveled not more than 5 or 6 feet after he applied the brakes [447], and approximately 5 feet after Malone saw Munoz get down.

Baker was the foreman in charge of giving orders to the crew [465]. When Malone saw plaintiff, Baker was just inside the platform on the ground [497], inside the electric door [497] [contradicted by plaintiff [227, 228] and Trembley [714, 715, 687, 688, 689]]. Does not know whether Baker was riding the point or not [504-505]. [On deposition, Malone said Baker was just in advance of the cars being pushed in and about 50 feet north of the electric doors, inside the building, when Munoz got off right at the electric door [498], and that he did not know whether Baker was riding the point or whether he was 50 feet in the building [505]; that he thought Baker was on the point of the car all the time until he hit plaintiff [480]].

It was the duty of all the crew to look out for pedestrians [506]; Malone's duty to either blow the whistle, or put brakes on, or both [506]. If he no longer sees a signal, he stops [456].

He admitted that he did not blow the whistle at any time before the accident [486, 507]; the brakes are applied by pulling a lever with a left hand [508]; the whistle is right by the brake valve [509]; he had another hand that was not being used [509]; to blow the whistle, all he had to do was pull the whistle cord which is "right from the top of the cab right by my left shoulder" [485] and there was no physical reason why he could not blow the whistle [509]; that the whistle operates instantly [486].

He admitted that he could have blown the whistle when he saw Munoz on the platform walking toward the edge and that he could have blown it before that or at any time [529].

The purpose of the man on the point is to give the engineer a signal if he sees a person on the tracks [481]; he was familiar with the rule requiring a man to ride the point [466]; does not know how long someone rode the point [468-469]. Trembly disappeared from his view [475]; he did not stop when Trembley disappeared [475]. On deposition testified he did not know where Trembley was [477-478] and there was no light from Trembley [478-479]; that he thought *Baker* was on the point all the time until the accident [480]]. When 250 feet from electric door he did not see Trembley, did not look for him and did not know where he was [484].

He did not see any lady walking in the yard [595] although he claims he was looking straight ahead [520]. He saw several people walking around the yard [520].

3. Trembley.

James Trembley testified that he was a switchman for 11 years [678]; in the evening of the accident he was riding on the front edge of the front car as the train entered the Continental Can premises, but got off at a place about 300 feet from the electric door [680] and remained standing at that place, between the train and the dock [681], and could see Baker [681]. The train at this time was traveling 3 to 4 miles per hour [681]. When he got off the train Baker was *on the dock* about 15 or 20 feet *outside* the electric door carrying a white lantern [680]; 15 or 20 feet *inside* the electric door [681]. There was no man on the ground but he saw *Baker up on platform* standing [714-715] *by the steps* (or ladder) when he saw Munoz come and start down the steps (or ladder) [687, 688, 689]; he saw Baker standing in a position from where Baker could see anybody going down the steps [688] (or ladder) and standing 15 to 20 feet south of Munoz when Munoz was getting down the ladder [693, 694, 695]. [On deposition he said Munoz was 20 feet north of Baker [694]]. He testified that if there is a man on the platform ahead of the train, it is his job to watch for people who might cross the tracks [716]. He claims he saw Munoz step off the dock at the time when the front end of the train was 10 to 15 feet from the ladder [683, 695, 698] or possibly 20 feet [699]. [On deposition he said he did not see Munoz until he was on the ground [701]].

He claims he saw Baker give violent stop sign at the same time Baker yelled at Munoz [685].

He testified that when he rides the point he is the eyes of the engineer [705, 706], and if on the point it would be his job to watch out for people who might cross the tracks [716]. If he had been riding the point all along he would have been able to see Munoz while Munoz was still on the platform and would have given stop signal [702]. Baker never gave Trembley any order to get off at that point [703]. He doesn't remember engineer blowing the whistle [680]. He is uncertain whether or not he saw Baker give a back up signal [689, 692]. [On deposition he says he saw Baker give back up signal [691]].

4. Baker.

Jack Baker testified that he was the switch foreman in Los Angeles since 1952 [740], and the foreman of the crew on the night of the accident [741].

He observed switchman Trembley get off the lead car after the train was approximately a car and a half down the dock [742], about 200 feet of Baker [765]. Trembley was carrying a white lantern and when he got off the train he leaned up against the dock [744, 745].

Baker gave Trembley no signal to get off [765]. When Trembley got off Baker claimed he was located 10 to 15 feet inside the steel door [745] next to the dock on the ground [745] as the train proceeded towards him, and slowly walked backwards [741, 743, 745]. [This was contradicted by plaintiff [227, 228] and Trembley [714, 715, 687, 688, 689].] [Elsewhere Baker says 20 feet [765], 60 feet [765]; deposition, 60 feet [766]].

He was watching the train all the way [745] and does not remember giving any signals prior to the accident [743]. This was contradicted by Malone [443, 444].

The last time he remembers seeing Trembley, Trembley was about even with the rear end of the engine [758-759]. Trembley was not at the engine when Baker got back from after the accident [759].

Lighting conditions were dark [744], although there were electric lights located overhead on the dock [744].

From the time Trembley got off until Baker gave the stop sign at the time of the accident, Baker claims he gave no other signals [767-768], but Baker says the lantern in his hand may have been swinging and it may have looked like a signal [768]. When Baker gave the stop signal, Trembley was at the rear end of the train, near the engine [772-773]. [Deposition: Did not know where he was then [773-774].] After the accident Baker gave back-up signal to engineer but engineer did not follow signal [778]. Baker did not then see Trembley, does not know where Trembley was and Trembley was not at the engine when Baker arrived at the engine [778]. [Deposition: He saw Trembley at the engine [779] but when he got to the engine, Trembley was not there [779, 780]].

Baker claimed [although contradicted by plaintiff [227, 228] and Trembley [714, 715, 687, 688, 689]] that he was not on the dock near Munoz prior to the accident [782]. When he first saw Munoz the train was 10 to 12 feet from the ladder, and 50 to 60 feet from Baker [755]; Baker claimed that he was 60 feet inside the building and was standing on the ground [746]; the train had been going slowly [761]; Munoz was on the platform at the step (or ladder) [747]. He claims that plaintiff did not speak to him [747]. He saw that Munoz, while he was at the top of the ladder, did not look towards the train nor did he look to the left or right [748]. He saw Munoz prior to his hitting the steps, right on the edge of the dock [746]. Munoz stepped upon the top step of the ladder while descending [757]. When Baker saw Munoz making a move to go down the steps, he claims he gave a stop sign with his lantern and also started hollering at Munoz; elsewhere he says he began hollering at Munoz when Munoz just reached the ground (and at the same time gave stop sign [756]). [Deposition: Saw Munoz go down steps of ladder [771]. When Munoz got to the bottom of the ladder, Munoz did not look in the direction of the train [754] nor in Baker's direction [754] but looked down at the ground [754].

The distance from the platform to the first rail is 2½ to 3 feet [756]. Munoz took about 2 steps across the tracks and was then hit [757]. The front wheel on the northwest corner of the gondola pinned him down [761]; the leg which remained was on the western rail of Track 5 [785]. The train traveled approximately 4 to 6 feet after hitting Munoz [758]. It traveled 10 to 12 feet from the time Munoz was on the dock to the time it hit him [775-776]; [Deposition: Could not answer this question [776]].

When Baker applied tourniquet, Williams, Baker, Trembley and Continental Can foreman were there [780]. [Deposition: Does not mention Trembley [780]]. *Did not hear any bell ringing from the time Trembley got off until the accident* [776, 743], nor any whistle [776]; does not remember anyone else coming across the track [761].

5. Whited.

Harold Whited, a guard at Continental Can Company, testified that the train was traveling at a very slow speed before the accident [542]; 4 or 5 miles per hour [545]; he does not recollect any whistle blown *nor any bell ringing* [558, 561, 562, 563], nor a man with lantern at the south end of the dock [563-564]. The engine foreman, Baker, *told him that he saw Munoz come down the steps of the ladder on the dock* [572].

6. Fisher.

Gene Fisher, the fireman, testified that the train was traveling 2 to 3 miles per hour [718, 727]. [Deposition: When traveling 2 to 3 miles per hour, that is slower than a man normally walks [730]. The train was going almost as slow as you could go [730]].

Headlights were dim [722]. While sitting in the cab on the fireman's side (left side), he could see if there is somebody on the track ahead, a distance of 200 to 300 feet [724-725]; that it was his duty to keep a lookout [725]. He had seen no signal from Baker or anyone else [725].

While traveling the 200 to 300 feet in the yard, he did not see and does not know the whereabouts of Williams, Trembley or Baker [724]. When he reached the end of the train where plaintiff was lying, he did not see Williams or Trembley there, but he saw Baker and two other men there.

The purpose of the whistle is to warn people [725]. He did not hear the whistle [725-726]; the bell should be ringing [726]. Not in all circumstances should a man be riding the point when cars are pushed in the yard [726]. [Deposition: Not qualified as to circumstances, [727]].

7. Williams.

Harold Williams, the pinpuller [622], testified that the train speed was 4 miles per hour [623, 634];

which was drifting speed [636]. [Deposition: Slower than a man would walk [635, 636]].

No bell was ringing when the train was standing still [649].

Did not see Baker inside the building [737]. [On deposition, said he saw Baker inside building [737]].

Remembers Trembley coming up the left side of the train, although Trembley testified he came up right side of train [739].

8. Carlson.

Fred Carlson testified that he was the general foreman in charge of the night shifts at Continental Can [39]; that the shortest and customary way since 1954 to Building "O" would be to go down the ladder, cross the tracks and then walk across the yard [52, 53]; that the customary time for trains to come in was between 6:00 and 6:30 P.M. [107] and it is lighter at that time than at 7:30 P.M. [53-54].

With the lighting condition there, *it is difficult to distinguish between the moving cars and the cars that are standing still if at a certain distance* [61]. (If standing on the track he would not be able to distinguish the movement quite as readily as standing on the platform [108, 109]).

When a man is on the point with the white light, Carlson could better tell whether or not the car is moving than when there is no man there [61].

That on previous occasions sometimes there was a man riding the point and sometimes not [55, 60-61, 106]. Sometimes the bell rang and sometimes not; *on the night in question he could not hear the bell from where he was* [55].

Baker told him that when Munoz was coming down this stairway, he (Baker) was on the other side of the door, on the dock, which would be approximately 25 feet from the stairwell [68-69]; *that Baker told him that he, Baker, saw Munoz going down the ladder* [69-70, 111]. That the dock is 4 feet from the ground [40].

9. Montoya.

Julian Montoya, an employee of Continental Can, testified *that he heard no bell* [134, 135, 143, 151]. Edward Koscielniak, another Continental Can employee, testified likewise [122, 131]. Montoya does not remember seeing any headlights on the locomotive [138], nor any railroad man with a lantern in his hand on the cars as they were coming in [138].

10. Jeff Tommy Grigg.

J. F. Grigg, Continental Can employee, testified that *it is difficult at night* to see whether *a slow moving train is standing still or moving* [193, lines 9-12, 17, 19, 22-23; 200, 204], even if you can see headlight [201, lines 11-16, 17-26]; nor does it make any difference whether a person is standing on the dock or is down at the pavement [202].

11. Balsavich.

Joseph Balsavich, Continental Can employee, testified that it is customary for employees to walk down the ladder and across the yard, to Building "O" [207-208]; *he heard no bell* [210]. J. F. Grigg testified likewise [193, 194, 199]. Balsavich further testified that it *is difficult to tell whether a car is moving or standing still* [208-209]; even *if train is only 30 feet away* [212, lines 6-25; 213, lines 1-2, 18-25; 214-215]. On previous occasions sometimes the bell would ring, sometimes not [219].

12. **Shirley Lawton.**

Shirley Lawton, a Continental Can employee, testified that it was dark [344]; *the bell was not ringing* [409]; she did not see any man on the lead train [409], and saw no man with a lantern anywhere on or near the first gondola [409-410]. On previous occasions the bell was ringing and man was on the lead car [410]; the man with a lantern was swinging it all the time she saw him [424]; the train did not change speed all the time she was watching it [432], and was *going slower than she was walking* [432].

III.

ARGUMENT.

THE TRIAL COURT PROPERLY INSTRUCTED THE JURY ON LAST CLEAR CHANCE.

A. Summary of Argument.

1. California law requires that the jury be instructed on every theory of the case advanced by a party if there is *any* evidence on which to base it.

2. There was substantial evidence from which a jury could find that all of the elements necessary for the application of the doctrine existed.

3. The evidence is viewed most favorably to sustain the contention that instruction is proper.

4. The Pre-Trial Conference Order set out last clear chance as an issue in the case.

5. Appellant did not comply with Rule 51, F.R.C.P.

6. Error, if any, was not prejudicial.

7. Authorities cited by appellant are distinguishable.

B. Plaintiff Is Entitled to Instructions on Every Theory of Its Case and Failure to Give Such Instructions Is Reversible Error.

Plaintiff is entitled to instructions on every theory of its case.

> *Peterson v. Devine,* 38 Cal. App. 2d 387, 156 P. 2d 936.

As the California Supreme Court recently stated in *Phillips v. G. L. Truman Excavation Co.* (1961), 55 Cal. 2d 801, 806, 13 Cal. Rptr. 401, 403, 362 P. 2d 33:

> "It is Hornbook law that each party to a lawsuit is entitled to have the jury instructed on all of his theories of the case that are supported by the pleadings and the evidence . . ."

Cases holding the failure to instruct on every theory as error include:

> *Greeneich v. Southern Pac. Co.* (1961), 189 Cal. App. 2d 100, 11 Cal. Rptr. 235;
>
> *Berall v. Squaw Valley Lodge* (1961), 189 Cal. App. 2d 540, 11 Cal. Rptr. 316;
>
> *Stickel v. Durfee* (1948), 88 Cal. App. 2d 402, 406, 199 P. 2d 16;
>
> *Petersen v. Rieschel* (1953), 115 Cal. App. 2d 758, 766, 252 P. 2d 986;
>
> *Rasich v. Gladding McBean & Co.* (1949), 90 Cal. App. 2d 241, 202 P. 2d 576;
>
> *Ribble v. Cook* (1952), 11 Cal. App. 2d 903, 908, 245 P. 2d 593.

In *MacLean v. City and County of San Francisco* (1957), 151 Cal. App. 2d 133, 311 P. 2d 158, the court stated at pages 161-162 (quoting from *Washington v.*

City and County of San Francisco, 123 Cal. App. 2d 235, 238, 266 P. 2d 828, 830):

> "In considering the testimony with a view to determining whether, as a matter of law, there was sufficient evidence to justify the court in giving the instructions complained of, this testimony must be considered in a light most favorable to respondent, for in order to find that the giving of any certain instruction was not warranted by the evidence, the court must find that, as a matter of law, there is in the record not even slight or inconclusive evidence on the point covered by the instruction. In 24 Cal. Jur., p. 832, the rule is stated as follows: 'In order to warrant the giving of an instruction it is not necessary that the evidence upon an issue be clear and convincing, it being sufficient if there be slight or, at least, some evidence upon the issue.' . . .
>
> "And in 53 Am. Jur., p. 457: 'In determining whether there is evidence that will warrant an instruction, the court does not pass on the weight and sufficiency of the evidence. It is not error to submit an instruction covering a theory advanced by a party if there is any evidence on which to base it, although it may be slight and inconclusive, or opposed to the preponderance of the evidence.' "

Applying California law, it was proper for the trial court to instruct on last clear chance under the circumstances.

In the very recent case of *Rebago v. Meraz,* 60 A. C. 1, 31 Cal. Rptr. 777 (July, 1963), the California Supreme Court (in discussing the instruction on assumption of risk) declared (p. 781):

"It is well settled that it is not error to give an instruction on a theory advanced by a party if there is *any* evidence on which to base it." (emphasis added).

In *Yandell v. Truckaway, Inc.,* 216 A. C. A. 294, 30 Cal. Rptr. 583, 586 (May, 1963), the District Court of Appeal, in reversing the trial court for its failure to instruct on last clear chance, stated:

"It is well established that if there is evidence which would reasonably support a recovery on the basis of the last clear chance doctrine, it is reversible error to fail to instruct thereon (citations omitted)."

In September, 1963, the California Supreme Court denied a petition for hearing where a unanimous District Court of Appeal reversed the trial court for its failure to give an instruction when, as the District Court put it, "There was evidence from which the jury could have determined that defendant owed a duty to sound his horn." *Weiss v. Baba,* .... Cal. App. ...., ..., ... (hearing denied).

The United States Court of Appeals for the Ninth Circuit has applied the law of last clear chance as declared by the California Supreme Court and District Courts of Appeal.

In *Churchill v. Southern Pac. Co.,* (1954), 215 F. 2d 657 (C. C. A. 9), this honorable court, in reversing the lower court's action taking the case from the jury, held that last clear chance was applicable in a situation comparable to that in the case at bar.

The court relied on *Girdner v. Union Oil Co.,* 216 Cal. 197 13 P. 2d 915 (the same case cited in *Brandelius,* *infra,* as the prime case on last clear chance in California). In *Churchill,* plaintiff testified that he first saw the train when it was 10 feet away and continued to watch it but it did not seem there was any change in the speed. Said the court (p. 661):

> "There was evidence from which the jury might have concluded that (plaintiff) . . . was in a position of danger . . .
>
> ". . . Although Altmeyer testified he was looking in the direction of the crossing and did not see Churchill at any time prior to the accident, the jury was entitled to disbelieve him and find that he actually saw Churchill (citations omitted). And finally, the jury was entitled to draw the inference that Altmeyer was aware of the fact that Churchill would not escape from his peril by the exercise of ordinary care.
>
> ". . . Altmeyer also testified that he immediately put on his brakes, but the jury was not required to believe him in this respect (citing *Sills v. L. A. Transit Lines,* 40 Cal. 2d 630, 255 P. 2d 795)."

The court concludes (p. 663):

> "Since the third element of the doctrine was reasonably raised by the plaintiff's evidence, this element became a question of fact for the jury. 'Whether or not the doctrine of last clear chance applies in a particular case depends entirely on existence or non-existence of the elements necessary to bring it into play. *Such question is controlled by factual circumstances and must ordinarily be resolved by the fact finder.' Daniels v. City and*

County of San Francisco, supra (40 Cal. 2d 614, 255 P. 2d 788)." (Emphasis added).

See also:

Union Pacific Railroad Company v. Ward (C. C. A. 10, 1956), 230 F. 2d 287;

Nicholson v. Stroup (C. C. A. 4, 1957), 249 F. 2d 874.

C. There Was Substantial Evidence to Require an Instruction on Last Clear Chance.

Appellant, disappointed by the unanimous verdict of the jury and the trial court's failure to give it another chance to defend its case, goes to great lengths to split hairs and attempt to argue that the plaintiff was not in a position of danger until he was on the tracks and the train was upon him. It cites many cases but they are clearly distinguishable and not the applicable law as declared by the California courts.

A review of the record shows that there was ample and sufficient evidence to support the jury finding that plaintiff was in a position of danger before he stepped from the foot of the ladder onto the tracks. Plaintiff was in a position of danger from the time he began his descent down the ladder and even while he was walking on the platform towards the ladder with his lunch pail under his arm.

The record shows that there was ample evidence to support a finding that defendant had the last clear chance to avoid the accident, irrespective of which of the aforementioned places was found by the jury to have been the place of danger.

Both hypotheses will be argued separately.

1. Position of Danger as Including the Time Plaintiff Was Walking on the Platform Towards the Stairs.

The factual basis of last clear chance is for the jury to determine.

> *Churchill v. Southern Pac. Co.* (1954), 215 F. 2d 657 (C. C. A. 9);
>
> *Buck v. Hill,* 121 Cal. App. 2d 35, 263 P. 2d 643.

The factual basis includes the determination of position of danger.

> *Daniels v. City and Co. of San Francisco* (1953), 40 Cal. 2d 614, 255 P. 2d 785;
>
> *Peterson v. Burkhalter* (1951), 38 Cal. 2d 107, 237 P. 2d 977.

The jury could have found that plaintiff was in a position of danger while he was walking on the platform to the lunchroom with his lunch pail under his arm unaware of the approach of the train.

This is especially so in view of the following attendant circumstances, any one of which would have been sufficient, but cumulatively seem to force this conclusion:

(1) Baker's restricting of his conversation with plaintiff to the weather and his failure to caution plaintiff at that time.

(2) The fact that Trembley left the point, and no one was riding the point.

(3) No bell was ringing.

(4) No whistle was blowing.

(5) The appearance of immobility of the train due to low speed, and no man riding the point, and no lights, bell or whistle.

(6) The fact that the train came in later than usual this evening.

(7) Lighting conditions.

Some of these factors are interrelated.

It is well settled that "position of danger" is not restricted to physical helplessness, but includes unawareness of the peril.

In *Peterson v. Burkhalter* (1951), 38 Cal. 2d 107, 237 P. 2d 977, the California Supreme Court stated (p. 979):

> "This reasoning is based on the *fallacious* assumption that the doctrine of last clear chance is limited in application to a situation *where the plaintiff is physically helpless* to prevent the impending accident through the exercise of ordinary care (emphasis supplied).
>
> ". . . ignores the fact that the *inattentive plaintiff,* as well as the physically helpless one, comes within the scope of the rule (emphasis supplied). It applies '. . . not only where it is physically impossible for him to escape, but also in cases where he is totally unaware of his danger and for that reason unable to escape . . .' *Girdner v. Union Oil Co.,* supra. The continuing negligence of a plaintiff does not bar him from obtaining a judgment against the person who had the last clear chance to avoid the accident."

In *Heffington v. Paul* (1957), 152 Cal. App. 2d 235, 313 P. 2d 157, the court, in holding the refusal to give a last clear chance instruction error, declared:

> "The jury could further have found that appellant, in the exercise of due care, ought to have

> known decedent was unaware of his peril while there was still time to avoid running him down."

In *Nahhas v. Pacific Greyhound Lines* (1957), 153 Cal. App. 2d 91, 313 P. 2d 886, the court said:

> "It could have been found that Link knew that appellant was in a position of danger from what he observed ahead of him and further knew, or should have known, that he was unable to escape."

In *Hardin v. Key System Transit Lines* (1955), 134 Cal. App. 2d 677, 286 P. 2d 373 (hearing denied), the court affirmed the lower court's giving of the instruction (despite the fact that an intersection was involved).

Concerning the position of danger, the court said (pp. 376-377):

> "At least when the motorman received the signal for departure any person nearing the tracks unaware of a possible movement of the train was in danger. . . . If at that time he observed facts indicating that the driver of an oncoming car was inattentive and therefore in danger of continuing onto the tracks the motorman undoubtedly had a clear chance to prevent an accident as he simply had to wait a few seconds longer before starting the train. The jury could hold that waiting those few seconds would not constitute more than ordinary care. The jury could also find plaintiff negligently inattentive and as a result thereof in danger.
>
> ". . . In this respect, it should be noted that total unawareness of danger as well as physical impossibility can cause inability to escape by or-

dinary care, *Doran v. City and County of San Francisco, supra,* 44 Cal. 2d 477, 283 P. 2d 1, and 'that the "continuing negligence" of the injured party does not deprive him of the benefit of the last clear chance doctrine if all the required elements for the application of that doctrine are present.' *Doran v. City & County of San Francisco, supra,* 44 Cal. 2d 477, 283 P. 2d 7.

"The treatment of the rule as to total unawareness (negligent inattention) in Section 480 of the Restatement, Torts is instructive with respect to this case. It is said there in Comment b: '* * * the defendant is liable only if he realizes or has reason to realize that plaintiff is inattentive and consequently in peril * * *. However, it is not necessary that the circumstances be such as to convince the defendant that the plaintiff is inattentive and, therefore, in danger. It is enough that the circumstances are such as to indicate a reasonable chance that this is the case. *Even such a chance that the plaintiff will not discover his peril is enough to require the defendant to make a reasonable effort to avoid injuring him.* Therefore, if there is anything in the demeanor of conduct of the plaintiff which to a reasonable man in the defendant's position would indicate that the plaintiff is inattentive and, therefore, will or may not discover the approach of the train, the engineer must take such steps as a reasonable man would think necessary under the circumstances. If a train is at some little distance, the blowing of a whistle would ordinarily be enough, until it is apparent that the whistle is either unheard or disregarded. The situation in which the plaintiff is observed may clearly indicate that his inattention is likely to persist and that the blowing of the whistle will not be effective. If so, the engineer is not entitled to act upon the assumption that the plaintiff will awaken to his danger but may be liable if he does not so reduce the speed of his train as to enable him to stop if necessary." (Emphasis added.)

In the instant case the jury could find that plaintiff was unaware of his danger when he was crossing the platform walking towards the steps, because of the aforementioned factors.

During this time, the jury could find, defendant's agents had several opportunities to avoid the accident.

Following are some of the actions which the jury could find could and should have been taken by defendant's employees, in the exercise of their last clear chances, to avoid the accident.

a. Baker's Last Clear Chance.

Baker could have cautioned or delayed Munoz while plaintiff was on the platform discussing the weather with him, or at any time before he claims to have hollered. It should be emphasized that they were within 5 feet of each other. Trembley corroborated the fact that Baker was on the platform.

The aforementioned is especially true when Baker's own testimony, that plaintiff did not look towards the train while standing at the top of the ladder, is borne in mind. It was for the jury to determine whether Baker had the last clear chance under all of the circumstances.

In determining the reasonableness of Baker's acts and omissions under the circumstances, the jury might consider that Baker should have realized that:

(1). Plaintiff would reasonably think that the train was stationary because:

(a) Baker's restricting his conversation to the weather would tend to lull plaintiff into a false sense of security;

(b) The absence of a man riding point;

(c) The slow speed of the train;

(d) No bell was ringing;

(e) 7:30 P.M. was not the usual time for the train;

(f) No whistle was blowing.

(2). He (Baker) was the only one who could properly be expected to warn plaintiff, since Baker knew that Trembley was not on the point, and thus could not perform this function, and Baker knew the train was moving.

The jury could likewise have found that Baker should have stopped giving Malone the go-ahead signals earlier than he did, especially in view of the aforementioned factors. The jury could also have found that Baker's failure to control his swinging lantern which was apparently giving signals to Engineer Malone constituted a last clear chance.

Even if they believed Baker's testimony that he was not on the platform, they could find that he could and should have hollered and/or signalled from his location (whatever it was) to plaintiff earlier than the time he claims. Baker testified he was facing the train and it was in clear view.

b. Malone's Last Clear Chance.

The jury could have found that Malone had the last clear chance, even according to his own testimony.

He testified that when he first saw Munoz, the train was 8-10 feet from the ladder and Munoz was 8 feet from the edge of the ramp.

Thus, from the first time the engineer saw Munoz, until Munoz was hit, the train traveled at least 8 feet plus 3½ feet, plus the distance between the ramp and the track, plus 1½ feet of track, plus 6 feet after hitting plaintiff.

He was travelling 3-4 miles per hour (5½ to 6 feet per second) and could stop in 5 to 8 feet and the brakes could be applied immediately [503].

Trembley testified that the train was 15 to 20 feet away from plaintiff when plaintiff was getting off the platform (and Malone testified he saw Munoz walking on the platform and descend).

Malone could also have sounded the bell after seeing plaintiff.

Malone could have blown the whistle at any time. Thus Malone had a clear chance to avoid the accident by blowing the whistle, inasmuch as plaintiff could have stopped on the spot before getting on the tracks had he been given the whistle warning.

If the train was moving at 4 miles an hour, it would move 6 feet a second; if the end of the train was 15 to 20 feet away from the ladder when Mr. Munoz was getting down, it must have been at least an additional 10 or 15 feet further away when Malone first saw Munoz approaching the edge of the platform. This would have given him at least 6 seconds to take action to warn Munoz or stop the train.

c. Trembley's Last Clear Chance.

Trembley testified that the train was possibly 20 feet [683, 695, 698, 699] from the ladder when plaintiff stepped off the dock.

The jury could have found that Trembley should have signalled or hollered to plaintiff at any time before the accident. In determining reasonable conduct on the part of Trembley, the jury could take into consideration the fact that Trembley knew that he had left the point which meant that:

1. He could not be the eyes of the engineer which he otherwise was [705, 706];
2. Plaintiff would all the more tend to think there was no danger because the train was stationary.

That Trembley had ample time to act is indicated by his testimony that the train was possibly 20 feet away from the ladder when plaintiff was first seen by Trembley. Thus, Trembley had ample time, opportunity and reason to warn plaintiff.

2. Position of Danger When Descending the Ladder.

The jury could reasonably infer from the evidence that plaintiff, oblivious to the fact that the train was moving while he was descending the ladder and proceeding towards the tracks, was in a position of danger from which he could not extricate himself and that the members of the train crew were or should have been aware of this fact. A toot on the whistle by the engineer could have warned him. A ringing bell could have alerted him and the stopping of the slow moving train would have prevented the accident.

According to corroborated evidence, Baker was right at the ladder and could see the entire action. A timely signal from him to the engineer would have stopped the train or at least caused the engineer to blow the whistle.

All of these factors were for determination by the jury under the evidence and the qualified instruction given by the court.

Appellant wants this Court of Appeals to indulge in fact finding in derogation of the jury's prerogative and to decide factually what could or should have been done by the appellant's train crew at the time and place.

According to the great weight of authority in California, neither the jury nor the court is bound by the testimony of the appellant's employees to the effect that they did not see the plaintiff in a position of danger until too late to do anything about it.

The jury had the right to judge the credibility of the witnesses and to determine from all the facts and circumstances what the truth actually was and to infer from the evidence that the train crew did have the last clear chance to avoid injuring the apparently oblivious plaintiff.

They could have found that Munoz was in a position of danger when the train was still 100 or 150 feet away. That Foreman Baker and/or Engineer Malone had plenty of time to give warning or stop the train.

Under the instructions this was a preliminary requirement—that they find from the evidence that a last clear chance existed before applying the doctrine.

D. In Determining on Appeal Whether an Instruction on the Doctrine of Last Clear Chance Should Have Been Given, the Evidence Is Viewed Most Favorable to the Contention That the Doctrine Is Applicable.

Selinsky v. Olsen (1951), 38 Cal. 2d 102, 237 P. 2d 645;

Warren v. Ubungen (1960), 177 Cal. App. 2d 605, 2 Cal. Rptr. 411;

Gulley v. Warren (1959), 174 Cal. App. 2d 407, 345 P. 2d 17;

Lovett v. Hitchcock (1961), 192 Cal. App. 2d 806, 14 Cal. Rptr. 117;

Bonebrake v. McCormick (1950), 35 Cal. 2d 16, 215 P. 2d 729;

Sills v. L. A. Transit Lines (1953), 40 Cal. 2d 630, 255 P. 2d 795;

Daniels v. City and Co. of San Francisco (1953), 40 Cal. 2d 614, 255 P. 2d 785.

E. The California Supreme Court Has Never Reversed a Trial Court for Giving the Last Clear Chance Instruction.

Appellee has not found, nor does appellant cite, a single case wherein the California Supreme Court has reversed a trial court for giving the last clear chance instructions.

The California Supreme Court and the Courts of Appeal have on numerous occasions approved the last clear chance instruction in cases where the facts were similar to those in the case at bar.

F. California Supreme Court Cases.

In May, 1963, the California Supreme Court, in *Shahinian v. McCormick,* 30 Cal. Rptr. 521, *reversed* the trial court for its *failure* to instruct on last clear chance. The court stated (p. 529):

> ". . . and the jury could have found that Mrs. McCormick knew of plaintiff's immobility and knew or should have known he was unable to escape . . ."

In *Sills v. Los Angeles Transit Lines* (1953), 40 Cal. 2d 630, 255 P. 2d 795, the court reversed the trial court's refusal to instruct on last clear chance, pointing out:

> "However, the record shows that these matters involve factual considerations, as the evidence most favorable to plaintiff's theory, if believed by the jury, would have warranted the application of the last clear chance doctrine. *Girdner v. Union Oil Co.,* 216 Cal. 197, 199, 13 P. 2d 915; *Hopkins v. Carter, supra,* 109 Cal. App. 2d 912, 915, 214 P. 2d 1063; also *Galbraith v. Thompson,* 108 Cal. App. 2d 617, 622-623, 239 P. 2d 468."

The Court stated:

> "It was for the jury to determine whether the circumstances were such as would alert a reasonable man as to the danger of plaintiff's predicament and plaintiff's probable inability to escape therefrom."

The Court further pointed out:

> "Thus, while the motorman testified that he immediately applied his brakes when he saw the automobile on the track ahead, the jury might have disbelieved him and accepted plaintiff's statement that there was no decrease in the speed of the approaching streetcar at any time prior to the impact."

In *Daniels v. City and County of San Francisco* (1953), 40 Cal. 2d 614, 255 P. 2d 785, the court reversed the lower court for its failure to give the last clear chance instruction. The Court said:

> "Defendants argue that plaintiffs' automobile was not in a 'position of danger' until it 'jumped forward' from a standing position in the middle lane into the path of the bus as Urdahl veered to the inside lane in an attempt to avoid a collision. But such argument makes no allowance for Urdahl's admitted awareness of plaintiffs' automobile before it even stopped and while he saw it reducing its speed as it came into his path. From this aspect of the evidence it becomes unnecessary to consider decisions upon which defendants rely to the effect that the last clear chance doctrine cannot apply until a position from which the plaintiff cannot escape danger has been reached (citing cases). It would be a disregard of the realities of the situation to hold that under no view of the record could it be said that Urdahl's observation of the slackening speed of plaintiffs' automobile until it finally came to rest in his lane of travel on the 55-mile per hour highway might not reasonably constitute sufficient warning of

the imminently perilous position created in front of him. Such consideration distinguishes cases where there was no evidence that would sustain a finding of knowledge by defendant of the plaintiff's danger (citation omitted)."

Defendant Urdahl argued that plaintiff Daniels admittedly entered the boulevard at a slow rate of speed and had the better chance of avoiding the accident so that she did not reach a position of danger but was only "*approaching* but . . . not actually *in* a position of danger" and that having come to a stop she could have remained there in place of safety until defendant's bus passed.

> "Defendants further argue that having come to a stop, Mrs. Daniels, to all appearances, was yielding the right of way to Urdahl and invited him to swing to the left or inner lane in front of her; and that as he accordingly changed his course, he could not anticipate that she would create a second emergency by 'jumping' her automobile ahead into the inner lane, when it was not possible for the bus to stop any time to avoid a collision."

Defendants cited Vehicle Code Section 543, which provides that no person shall start a vehicle stopped on a highway unless and until such movement can be made with reasonable safety.

To which the Supreme Court responded:

> "The fact that it could be inferred from the evidence that Urdahl should have foreseen that Mrs. Daniels might proceed forward in response to his slowing down his bus in the middle lane distinguishes such cases as *McHugh v. Market*

St. Ry. Co., 29 Cal. App. 2d 737, 85 P. 2d 467, and *Jones v. Heinrich,* 49 Cal. App. 2d 702, 122 P. 2d 304, relied on by defendants. Likewise not in point are cases involving collisions between two fast-moving vehicles at a street intersection, *Poncino v. Reid-Murdock & Co.,* 136 Cal. App. 223, 232, 28 P. 2d 932; *Dalley v. Williams, supra,* 73 Cal. App. 2d 427, 436, 166 P. 2d 595; *Allin v. Snavely,* 100 Cal. App. 2d 411, 415, 224 P. 2d 113, or between a fast-moving vehicle and a train at a railroad crossing, *Johnson v. Sacramento Northern Ry.,* 54 Cal. App. 2d 528, 532, 129 P. 2d 503, where the act creating the peril occurs practically simultaneously with the happening of the accident and in which neither party may be said to have had thereafter a last clear chance to avoid the consequences. *Rodabaugh v. Tekus, supra,* 39 Cal. 2d 290, 246 P. 2d 663. The relative time, speed and distance factors in the cases where the evidence was held insufficient as a matter of law to permit the application of the doctrine were quite different from those before us."

See also the concurring opinion of Justice Carter, at page 793, wherein he states:

"I concur in the judgment of reversal because I think it is obvious that the reasonable minds might differ on whether or not defendant had a last clear chance to avoid the accident here involved. This is the one and only test which may be applied in determining whether a case comes within the last clear chance doctrine. There was a conflict in the evidence and the trier of fact might well have found that plaintiff Daniels was negligent in placing herself and Mrs. Smith in a position of peril which was perceived by defendant in time to avoid a collision if he had exercised ordinary care; that plaintiff was unable, by the exercise of ordinary care, to extricate herself and Mrs. Smith from such peril; and that defendant's failure to exercise ordinary care was therefore the proximate cause of the accident. The facts as disclosed by the record justify but do not compel this conclusion."

In *Peterson v. Burkhalter* (1951), 38 Cal. 2d 107, 237 P. 2d 977, the court approved the lower court's giving of the last clear chance instruction (even where an intersection accident was involved). Defendant contended that "the evidence does not show that (plaintiff) was in 'a position of danger', when first observed by him . . . 'A position of danger', he argues, means that the plaintiff must have been so near the path of travel of the defendant's automobile that he could not escape a collision by the exercise of ordinary care," to which the court replied:

> "This reasoning is based upon the fallacious assumption that the doctrine of last clear chance is limited in application to a situation where the plaintiff is physically helpless to prevent the impending accident through the exercise of ordinary care. Although Burkhalter cites decisions in which the plaintiff, at the time of discovery, was in the path of the approaching vehicle, neither the opinions in those cases nor any logical reason justifies such a limitation upon the rule. See *Girdner v. Union Oil Company*, supra; *Bonebrake v. McCormick*, 35 Cal. 2d 16, 215 P. 2d 728. When Peterson was first seen by Burkhalter, the vehicles were 75 to 50 feet,

> respectively, from the intersection and traveling at speeds which would place them in the intersection at the same time. To argue that Peterson was not then in 'a position of danger' is to disregard reality."

The Court further points out that defendant Burkhalter knew that Peterson was oblivious to the impending collision, and he excuses his failure to do anything to avert the accident upon the ground that he had no reason to expect continuing negligence on the part of Peterson. However, there is ample evidence from which the jury could determine that a reasonably prudent man, knowing the facts of which Burkhalter was aware, should have foreseen that Peterson might not turn or stop his motor scooter. Under such circumstances, it was negligent for Burkhalter to proceed toward the intersection acting upon a contrary assumption. It is this evidence which distinguishes such cases as *Jones v. Heinrich*, 49 Cal. App. 2d 702, 122 P. 2d 304; *McHugh v. Market Street Railway Co.,* 29 Cal. App. 2d 737, 85 P. 2d 467, and *Choquette v. Key System Transit Co.,* 118 Cal. App. 643, 5 P. 2d 921, relied upon by Burkhalter.

In discussing what defendant should have done in its last clear chance, the Court stated, at page 98:

> "Moreover, Burkhalter's testimony reveals that he made no attempt to avoid the accident by turning his automobile or sounding his horn. It cannot be said, as a matter of law, that he did not have sufficient time in which to do something, and the jury properly might have found that sounding his horn to attract the attention of Peterson would have constituted the exercise of reasonable care on his part to avert the accident. (See Restatement Torts, Sec. 480, comment b.)"

In *Selinsky v. Olsen* (1951), 38 Cal. 2d 102, 237 P. 2d 645, the Court, in affirming the trial court's granting of a new trial because of its refusal to give the last clear chance instruction stated:

> "It does not mean that the doctrine is unavailable when plaintiff is negligent up to the time of the collision, for his negligence is one of the factors that brings it into play. *Girdner v. Union Oil Co.,* supra, 216 Cal. 197, 13 P. 2d 915. . . . Plaintiff's car was stopped from five seconds to a minute before the collision. There is a conflict on that point but it should have been left to the jury under the last chance doctrine instruction . . .
>
> "The second factor is lacking, urges defendant, because there is no showing that defendant was aware of plaintiff's perilous position or knew he could not escape therefrom. That depends upon the view one takes of the evidence. It is true that defendant testified that he did not see plaintiff's car until he was directly behind it, when plaintiff drove his car into the line of traffic in front of him, and that plaintiff's car was in motion at the time of the impact. Other evidence shows, however, that defendant was looking straight ahead as he approached plaintiff's car and his view was unobstructed. It may be inferred therefrom that he saw plaintiff's motionless car extending into the line of traffic (citing cases). Thus we do not have a case in which plaintiff's car was in motion or suddenly appeared in defendant's path as existed in the authorities relied upon by defendant. The jury could have inferred also, that defendant knew or should have known, in the exercise of ordinary care, that plaintiff could not escape. Under the evidence

most favorable to plaintiff, defendant could have seen plaintiff's car standing in the road ahead of him for a minute before the impact and thus could, by the exercise of ordinary care, have avoided the accident.

"The third element was not established, says defendant, because he could not have avoided the collision, having neither time nor means to do so. It was for the jury to determine whether in the space of time involved he could have avoided the collision. From a photograph of Crenshaw Boulevard, put in evidence, and which is pertinent to the issue, *Huetter v. Andrews,* 91 Cal. App. 2d 142, 146, 204 P. 2d 655, it appears that the distance between the cars parked along the curb and the first white line between the two traffic lines, defendant could have swerved to the left without crossing that line to avoid colliding with plaintiff's car."

The Court concludes by saying:

"The negligence of defendant could have consisted of his failure to keep a proper lookout ahead to observe vehicles in his path, which negligence was the proximate cause of the accident."

In *Bonebrake v. McCormick* (1950), 35 Cal. 2d 16, 215 P. 2d 728, the court reversed the trial court for its refusal to instruct on last clear chance.

The Court stated (p. 728):

"This depends on whether there was evidence which would reasonably support a recovery on that theory."

And at page 729:

> "It could be inferred from the facts proved that the boy by his own negligence put himself in a position of danger from which he could not escape by the exercise of ordinary care, that defendant knew of the boy's peril, that she had the last clear chance to avoid the accident by the exercise of ordinary care but failed to do so, and that the boy was killed as a proximate result of such failure."

In *Wright v. Los Angeles Railway* (1939), 14 Cal. 2d 168, 93 P. 2d 135 the Court affirmed the giving of last clear chance where there was a conflict in the evidence as to the facts.

The Court stated (page 140):

> "The final contention made by appellants is that the court erred in instructing the jury on the doctrine of 'last clear chance.' It is not improper to instruct the jury on the doctrine of 'last clear chance,' when, on any valid theory, there is substantial evidence to support the application of that principle. *Gardini v. Arakelian,* 18 Cal. App. 2d 424, 430, 64 P. 2d 181. In the case entitled *Wheeler v. Buerkle,* 14 Cal. App. 2d 368, 373, 58 P. 2d 230, 232, it was said that 'if the facts of a case do not bring the doctrine into play, the court must so decide' and if the facts be such that the doctrine may be applied, it is the duty of a trial judge to submit it to a jury by proper instructions, or to find upon it in the absence of a jury. Upon the state of the record herein presented, it cannot properly be said that the trial court erred

in instructing the jury thereon. As was said in the case entitled *Kenna v. United Railroads of San Francisco,* 57 Cal. App. 124, 129, 207 P. 35, 37, wherein it was contended that instructions on the doctrine should not have been given: 'There was a conflict in the evidence, and the jury were entitled to be advised as to the law and then to believe the plaintiff's witness, or witnesses, or to believe the defendant's witness.' "

In *Girdner v. Union Oil Co. of California* (1932), 216 Cal. 197, 13 P. 2d 915, the court affirmed the trial court's giving of last clear chance instruction (despite the fact that it involved an intersection accident.)

Said the court (p. 918):

> "The element of continual negligence is present in all last clear chance cases . . . (I)f . . . defendant is able to avoid injuring the negligent plaintiff, and negligently fails to do so, plaintiff's original though continuing negligence only remotely contributes to the injury and hence is not the proximate cause thereof. . . ."

And at page 920:

> "The rule of the last clear chance means just what the words imply, namely, if one has the opportunity of avoiding the injury, he must at his peril exercise it."

In *Center v. Yellow Cab Co.* (1932), 216 Cal. 205, 13 P. 2d 919, where a pedestrian was struck by a cab, the Supreme Court reversed the trial court's non-suit which was based on the fact that plaintiff's contributory negligence continued to the moment of impact. The case was decided the same day as, and cites, *Girdner.*

See also:

Brandelius v. City and County of San Francisco (1957), 47 Cal. 2d 729, 306 P. 2d 432, wherein the court expressly approves the *Girdner, supra,* decision.

G. Cases of the District Courts of Appeal of California.

In addition to *Yandell v. Truckaway, Inc., supra,* wherein the District Court of Appeal, in May, 1963, reversed the trial court for its failure to instruct on last clear chance, following are numerous cases where the District Courts of Appeal held the doctrine of last clear chance applicable to fact situations similar to that of the case at bar.

In *Lovett v. Hitchcock* (1961), 192 Cal. App. 2d 806, 14 Cal. Rptr. 117, the District Court of Appeal, citing *Brandelius, supra,* affirmed the trial court's giving of last clear chance where there was a conflict in the evidence as to whether defendant saw plaintiff in time to avoid the accident, pointing out that defendant did not apply his brakes, slow down, or sound his horn.

In *Guyton v. City of Los Angeles* (1959), 177 Cal. App. 2d 354, 344 P. 2d 910, plaintiff was struck by defendant police car. In reversing judgment for defendant because of the trial court's failure to give the last clear chance instruction, the court states (p. 914):

> ". . . In determining the issue presented we are required to view the evidence in the light most favorable to appellant's case (citation omitted).

Accordingly . . . we do not necessarily accept the statement of officer Surratt that 'approximately one second elapsed from the time of first seeing the boy to the time of the collision.' Officer Higgens testified that his car was traveling approximately 17 miles per hour immediately prior to the accident. Officer Long, another witness for defendant, gave testimony from which it could be argued, in conjunction with the physical evidence and the use of a mathematical formula, that Higgins was from 60 to 90 feet from plaintiff when he was first seen and that approximately four seconds elapsed within which to avoid the accident. . . . While '(c) alculations so nice are unavailing to prove anything except the unity of the whole transaction' (citation omitted), and 'the doctrine of last clear chance never meant a splitting of seconds when emergencies arise' (citation omitted) the court stated in *Peterson v. Burkhalter,* 38 Cal. 2d 107, 112, 237 Pac. 2d 977, 980, that the proposition may not be argued that 'as a matter of law, a defendant with two seconds within which to avoid an accident had no chance to do so.' As further observed in the Peterson case, supra, (38 Cal. 2d at page 113, 237 Pac. 2d at page 980) such a defendant may have had 'sufficient time in which to do something' either by turning his automobile or sounding his horn. Here it is undisputed that Higgins made no attempt to avoid the accident by turning or swerving his car . . ."

In *Hensley v. Sellers* (1958), 160 Cal. App. 2d 117, 324 P. 2d 954, the court reversed the trial court because of its failure to instruct on last clear chance, stating: "The evidence when viewed in the light '. . . most favorable to the contention that the doctrine is applicable . . .' (citation omitted) shows that" the driver knew that the street was used, at this particular time of day, by numerous school buses discharging children and that there were limited pedestrian crossings. "He further testified he saw the plaintiff for a couple of seconds while she stood at the edge of the pavement and before she started to cross the street. The plaintiff had been on the east side of the street looking at a puppy which her parents were going to get her. * * * According to the plaintiff, before crossing Riverside Avenue she looked in both directions and seeing no approaching vehicles started running across the street diagonally in a southwesterly direction. This would have placed her in such position that her back was toward the approaching truck. As she was stepping off the pavement on the west side she turned her head and saw the front of the truck just before it hit her." (*Id.*, 956.)

In *Heffington v. Paul* (1957), 152 Cal. App. 2d 235, 313 P. 2d 157, the court, relying on *Brandelius,* held it was error to refuse to give a requested instruction on last clear chance.

The court stated:

> "Under the facts disclosed by the record, we hold that it was also error to refuse to instruct that the doctrine of last clear chance applies where, the other elements of the doctrine being present, the deceased is totally unaware of his danger and for that reason is unable to escape. . . .
>
> "The jury could further have found that appellant, in the exercise of due care, ought to have

known decedent was unaware of his peril while there was still time to avoid running him down."

In *Nahhas v. Pacific Greyhound Lines* (1957), 153 Cal. App. 2d 91, 313 P. 2d 886, the court reversed the lower court judgment because of its failure to instruct on last clear chance. Significantly the case involved an intersection accident and the evidence of last clear chance was, in the words of the appellate court, "weak".

> "Although the evidence that there was a last clear chance was weak, yet appellant was entitled to have the jury pass upon the situation presented under instructions as to the doctrine . . .
>
> "It could have been found that Link knew that appellant was in a position of danger from what he observed ahead of him and further knew, or should have known, that he was unable to escape. Finally, it could have been found, although here the showing is weak, that Link could have avoided the accident by using due care after knowing both appellant's danger and his inability to escape. In short, the jury could have found that Link did have a last clear chance and negligently failed to utilize it."

In *Parrott v. Furesz* (1957), 153 Cal. App. 2d 26, 314 P. 2d 47, the court reversed the judgment of the trial court because of its failure to instruct on last clear chance, stating:

> ". . . the jury could find that defendant should have known that plaintiff did not intend to turn back into the north-bound lane and instead was proceeding unaware of his peril."

See *Hardin v. Key System Transit Lines* (1955), 134 Cal. App. 2d 677, 286 P. 2d 373 (hearing denied), *supra.*

In *Buck v. Hill* (1953), 121 Cal. App. 2d 352, 263 P. 2d 643 (hearing denied), in approving the trial court's giving of the instruction, the court noted (p. 645):

> "In recent years the courts of California have shown a tendency towards liberality in the application of the last clear chance doctrine (see 'Recent Development in California's Last Clear Chance Doctrine', 40 Cal. Law Review 404, 409). Gailbraith v. Thompson, 108 Cal. 2d 617, 239 P. 2d 468, states that the most recent decisions of the Supreme Court, Peterson v. Burkhalter, . . . and Selinksy v. Olsen . . . show that the development of the law with respect to last clear chance continues in the direction of liberality and that 'no technical distinctions will be permitted to keep the doctrine from the jury where the jury could find the defendant did not act as a prudent man after discovering victim's peril.' "

In *Galbraith v. Thompson* (1952), 108 Cal. App. 2d 617, 239 P. 2d 468, the court affirmed the trial court's giving of the last clear chance instruction where a child darted out into street.

Stated the court (page 471):

> ". . . Nevertheless it would seem that if there is any evidence which might support a verdict on that theory there is less danger in giving the instruction than in omitting it.

"Appellant argues that . . . until the impact (plaintiff's decedent) could at any time be expected to stop . . . (H)owever the inability to escape can also be caused by total unawareness of danger . . . (T)he most recent decisions of the Supreme Court . . . show that the development of the law in that direction continues and that no technical distinctions will be permitted to keep the doctrine from the jury where the jury could find that defendant did not act as a prudent man after discovering the victim's peril.

"Appellant urges that there was no evidence that appellant was actually aware of the child's danger in time to avert it and that he had time to appreciate the situation and to determine on a course of conduct and follow it. *It must be conceded that in that respect the evidence is weak* (emphasis supplied) . . . Under these circumstances it does not seem wholly impossible that the last clear chance doctrine might be applicable and since it was a substantial part of plaintiff's case the question was properly left with the jury."

In an article entitled "Recent Developments in California's Last Clear Chance Doctrine", 40 Cal. Law Review 404 (1952), the author states (pp. 409-410):

". . . Where the jury is given an instruction on that doctrine and finds from the evidence that it applies, appellate courts will tend strongly to uphold the finding.

". . . The present tendency towards liberality is acknolwedged by the Galbraith case . . .

"Thus it appears that in far more cases than previously, the instruction is available, and where given, a verdict and judgment for the plaintiff is not likely to be reversed if any evidence supports a finding of last clear chance."

In *Huggans v. Southern Pacific Co.* (1949), 92 Cal. App. 2d 599, 207 P. 2d 864 (hearing denied), the court affirmed the trial court's giving of the last clear chance instruction, and stated (p. 869):

"This confuses knowledge that the train was coming with knowledge that it was approaching so rapidly that it would strike him if he continued heedlessly on his course. Although plaintiff knew that the train was behind him he erroneously formed the conclusion that he had ample time to cross in front of it and he was therefore unaware of his danger."

Additional cases in support of appellee's contention are:

Gulley v. Warren (1959), 174 Cal. App. 2d 470, 345 P. 2d 17, wherein the court stated (p. 20):

"Although Warren testified at the trial that he did not know the truck was stopped and did not see Gulley until . . . the jury was not required to believe his testimony. . . . The jury could also infer from the evidence that Gulley was unaware of the approach of Warren.

"Even though a witness testifies that he did not see the plaintiff . . . the doctrine of last clear chance is applicable if there is any evidence from which the jury could infer, that the defendant 'must have seen' the dangerous situation in time to have avoided the accident by the exercise of reasonable care."

Mason v. Hart (1956), 150 Cal. App. 2d 349, 295 P. 2d 28.

Wylie v. Vellis (1955), 132 Cal. App. 2d 854, 283 P. 2d 327, involved an intersection accident but nevertheless the court affirmed the trial court's giving of the last clear chance instruction.

Simmer v. City and Co. of San Francisco (1953), 116 Cal. App. 2d 724, 254 P. 2d 185, wherein the court reversed the trial court for its failure to instruct on last clear chance, stating (p. 187):

> "It is required to be given if there is any evidence in the case which would justify its application."

The court indicated that the jury could have believed that defendant saw plaintiff.

Podeszwa v. White (1950), 99 Cal. App. 2d 777, 222 P. 2d 683, which applies last clear chance without mentioning it.

Overacker v. Key System (1950), 99 Cal. App. 2d 281, 221 P. 2d 754.

Cole v. Ridings (1959), 95 Cal. App. 2d 136, 212 P. 2d 597. There, in reversing the trial court for its failure to instruct on last clear chance, the court said (p. 602):

> "It was for the jury to determine under the circumstances whether respondent saw appellant prior to the time he said he did and in time to have avoided the accident in the exercise of ordinary care after he realized or ought to have realized that she was unaware of her perilous position.
>
> "As stated in the late case of Haerdter v. Johnson, 92 Cal. 2d 547, 207 P. 2d 855, 857: 'There is abundant authority that "notwithstanding there

> may be a total absence of any positive testimony that the defendant actually knew of plaintiff's danger, and even though the defendant definitely denies seeing the plaintiff at all, the doctrine of the last clear chance may be invoked and applied where the *facts and circumstances* are such as *would justify the jury in finding that* despite the defendant's denial of knowledge or the absence of direct testimony on the subject, *he was actually aware of plaintiff's danger in time to* avert the accident; in other words that he 'must have known' of plaintiff's danger." (Emphasis added.) Gillette v. City and County of San Francisco, 58 Cal. App. 2d 434, 442, 136 P. 2d 611, 615, second Gillette appeal; see prior appeal, 41 Cal. App. 2d 758, 107 P. 2d 627; . . .'"

Paolini v. City and Co. of San Francisco (1946), 72 Cal. App. 2d 579, 164 P. 2d 916.

Powers v. Shelton (1946), 74 Cal. App. 2d 757, 169 P. 2d 482.

Gillette v. City and County of San Francisco (1943), 58 Cal. App. 2d 434, 136 P. 2d 611.

Therein, last clear chance was held applicable where plaintiff was unaware of the peril of the approaching car and in plain view of the motorman. The

> "inference may be fairly drawn that the motorman must have seen plaintiff and could have avoided the accident by simply sounding his bell as a warning of his approach or applying the brakes and stopping his car, and that therefore his negligence in failing to do either was the proximate cause of the accident, which brought into operation the doc-

> trine of the last clear chance. We are of the opinion that the law as laid down by such cases as Girdner . . . Center v. Yellow Cab Co. . . . Darling v. Pac. Electric Ry. Co., 197 Cal. 702, 242 P. 703; Wahlgren v. Market St. Ry. Co., 132 Cal. 656, 62 P. 308, 64 P. 993; and Hoy v. Tornich, 199 Cal. 545, 250 P. 565 fully support plaintiff's contention . . .".

Pire v. Gladding McBean (1942), 55 Cal. App. 2d 108, 130 P. 2d 143. (In reversing the trial court, the court stated, in discussing the only direct evidence on the subject, that of defendant who testified that he first saw plaintiff when he was about 30-40 feet away: "But the jury was not bound by such direct evidence and the authorities indicate that the other evidence in the record constituted substantial evidence from which the jury might have inferred that defendant Hickey actually saw (plaintiff) and was aware of the dangerous situation when more than 30 to 40 feet therefrom and in ample time to have avoided the accident by the exercise of ordinary care (citations omitted)").

Jones v. Yuma Motor Freight Terminal (1941), 45 Cal. App. 2d 497, 114 P. 2d 438, hearing denied, wherein the court said: ". . . we . . . must view the evidence in the light most favorable to the contention that the doctrine is applicable, indulging every reasonable inference supporting the application of the doctrine. . . . Bearing in mind this rule, we find evidence in the record furnishing justification for giving the instructions in question."

Ladas v. Johnson's Black & White Taxicab Co. (1941), 43 Cal. App. 2d 223, 110 P. 2d 449, wherein

"The taxi . . . was travelling from 10 to 12 miles an hour when he first saw . . . It does not appear when, if ever, he slackened that speed . . . These facts and circumstances give rise to the application of the last clear chance doctrine."

H. The Pre-Trial Conference Order Set Out Last Clear Chance as an Issue in the Case and Was Binding Upon the Court and Parties.

The Pre-Trial Conference Order made in this case set out last clear chance as one of the issues in the case. The Conference Order was entered into by the defendant and there never was any motion made or action taken to amend or modify the same.

Under the law of California, it is proper for a trial court to give an instruction on any of the issues set out in the Pre-Trial Conference Order.

In the case of *Rostant v. Borden,* 192 Cal. App. 2d 594, 13 Cal. Rptr. 553, the court said:

> "She complains that the court erred in instructing the jury on contributory negligence. She does not complain that the instructions given were erroneous but asserts that there was no evidence of contributory negligence to which the jury could apply them. This contention is frivolous. In the first place the trial court order stated that contributory negligence was one of the issues to be tried."

In *Wiese v. Rainville,* 173 Cal. App. 2d 496, 343 P. 2d 643, the court held that even though the defendant did not plead assumption of risk, since the Pre-Trial Order stated that assumption of risk was an issue in the case, the trial court was sustained in giving instructions on assumption of risk. This opinion is of particular interest since the same court had previously held in the same case that the court erred in instructing on the doctrine of assumption of risk, but a rehearing was granted when the court was advised that the Pre-Trial Order had made it an issue.

See also:

Baird v. Hodson, 161 Cal. App. 2d 687, 327 P. 2d 215.

In the case at bar, in the Pre-Trial Conference Order, page 6, under that portion entitled "ISSUES", issue No. 6 was set out as follows:

> "Causing said train to collide with the person of the plaintiff after having had the last clear chance to avoid doing so."

Since under the law of California, the trial court was obligated to submit to the jury all of the issues set out in the Pre-Trial Conference Order, we respectfully submit that as was said by the court in *Rostant v. Borden, supra,* the contention of the appellant that it was error to give the instruction is frivolous.

I. There Was Not Sufficient nor Timely Objection by Defendant to the Instruction so as to Comply With the Requirement of Rule 51, Federal Rules of Civil Procedure.

Rule 51 states as follows:

> ". . . No party may assign as error the giving or the failure to give an instruction unless he objects thereto before the jury retires to consider its verdict, stating distinctly the matter to which he objects and the grounds of his objection . . ."

After the instructions were given and before the jury retired, the following colloquy between the Court and defense counsel took place:

> "Mr. Vorkink (defense counsel): At this time, your Honor, I would like to repeat the former objection that I made this morning to the giving of the instruction, Plaintiff's No. 37, on the doctrine of last clear chance. I would like to make that objection on the basis that the evidence does not, there is not a substantial evidence to support each of the necessary elements of the doctrine of last clear chance. As I explained, I base my objection upon the points and authorities contained in the written memorandum regarding last clear chance, which were filed with the court yesterday. May I refer to those?"
>
> "The Court: I don't think you need to, counsel. I don't think it necessary because I have read that and you have supplied the court with the cases.
>
> "Mr. Vorkink: May those points and authorities be considered as objections at this time, your Honor?
>
> "The Court: If you wish.
>
> "Mr. Vorkink: Thank you.
>
> "The Court: Any other objections.
>
> "Mr. Vorkink: No, your Honor."
>
> [p. 1018, line 19, to p. 1019, line 14.]

It is submitted that this does not constitute adequate objection in view of the decisions of this Court.

In *Woodworkers Tool Works v. Byrne* (CCA 9, 1951), 191 F. 2d 667, 676 (involving *res ipsa loquitur*), the Court said:

"The appellant failed to state *distinctly* to the court below the matter in the change to which it objected and the ground of its objection. The objection made was only a general objection to a charge based on *res ipsa loquitur,* and counsel stated in substance only that the California courts had not extended the doctrine to manufacturers 'except in the beverage cases.' . . . In fact what Woodworkers Tool Works objected to was the giving of any change on *res ipsa loquitur.* It is obvious that the requirements of Rule 51 were not met, and the doctrine of 'plain error' is no longer available to this Circuit."

See also:

American Fidelity & Casualty Company v. Drexler (CCA 5, 1955), 220 F. 2d 930 (last clear chance);

Brandt & Brandt Printers v. Klein (CCA 5, 1955), 220 F. 2d 930 (last clear chance);

Franklin v. Shelton (CCA 10, 1957), 250 F. 2d 92;

Miller v. Delaware, Lackawanna & Western Co. (CCA 2, 1957), 241 F. 2d 116;

Apperwhite v. Illinois Central Railway Co. (CCA 8, 1957), 239 F. 2d 306;

Willits v. Yellow Cab Co. (CCA 7, 1954), 214 F. 2d 612.

We respectfully submit that under the authorities cited, no proper objection having been made, the defendants cannot seek a reversal here on the sole ground that such an instruction was given by the trial court.

J. It Was Not Prejudicial Error to Give the Instructions.

Even if it were error to instruct on last clear chance, the error was not prejudicial. The jury could have held for plaintiff under the general rules of proximate cause. On appeals, as on motions for a new trial, not every error occurring at the trial is so serious as to vitiate the action of the trial court and warrant a reversal of its judgment. The consideration of reviewing courts is directed, not toward a determination of whether an ideal or formally correct procedure has been followed, but to the question whether there has been such a departure from proper practice, and such serious error, as to warrant a reversal of the judgment or order appealed from. 4 Cal. Jur. 2d 498; American Jur. Appeal and Error, Section 1002.

In California the entire process of appellate review is based upon the constitutional provisions to insure that there will be no miscarriage of justice. California Constitution, Article VI, Section 4½. The Constitution provides that no judgment shall be set aside or new trial granted in any case on the grounds of a misdirection of the jury or of the improper instruction of the jury unless, after an examination of the entire cause, the court shall be of the opinion that the error complained of has resulted in such miscarriage of justice.

It has been held that just what is to be included in the phrase "miscarriage of justice" is to be determined in each particular case, since no precise definition is possible. 4 Cal. Jur. 2d 500. It is descriptive of that condition of a cause which justifies a reversal of judgment because the appellate court finds itself in serious doubt whether without the errors complained of the losing party would have lost his case. *Herbert v. Lankershim,* 9 Cal. 2d 409, cited in 4 Cal. Jur. 2d 500.

Obviously in a case where the evidence showed such patent negligence on the part of the railroad crew (failure to ring bell, failure to have a man on the point, failure to warn, failure to keep a proper lookout, etc.) and where plaintiff Munoz, going about his customary business of going to supper in the usual and customary manner, could easily be lulled into a sense of safety by the foreman on the platform, no lights on the train and no bell ringing, the jury could have found in favor of the plaintiff and against the defendant, even if the last clear chance instruction had not been given.

The verdict could have been based upon the primary negligence of defendant and the absence of contributory negligence on the part of the plaintiff.

The burden of showing prejudice, if indeed there was any, is upon appellant and we respectfully submit that they have failed to do so.

K. Appellant's Cases Analyzed and Distinguished.

All of the following cases cited by appellant in its opening brief are cases impaired by the following infirmities:

1. Are decisions of the intermediate courts of appeal.

2. Are cases which merely affirmed the action of the trial court in not submitting the instruction to the jury.

3. Involve intersection or railroad crossing collisions where the last clear chance doctrine is ordinarily inapplicable.

4. Under the facts, the respective defendants either did all that could possibly have been done, or could have done nothing, to avoid the accident.

Besides the aforementioned common characteristics, additional distinguishing factors are present in these cases, as hereinafter indicated.

Concerning intersection collisions our Supreme Court has stated (*Rodabaugh v. Lekus* (1952), 39 Cal. 2d 290, 246 P. 2d 663):

> ". . . it is apparent that this case presents the picture of one of the usual types of intersection collisions between two rapidly moving vehicles. It has been frequently stated that the last clear chance doctrine is ordinarily inapplicable under such conditions (citations omitted)."

As another Court put it (*Todd v. Southern Pac. Co.*, 7 Cal. Rptr. 448, 450):

> "(O)rdinarily the doctrine cannot be applied to an intersection case involving a collision between two moving vehicles . . ."

Bagwill v. Pacific Electric Railway Co. (1928), 90 Cal. App. 114, 265 Pac. 517 is a relatively old case. Furthermore, the train bell was ringing, the motorman applied the brakes within one second after he saw plaintiff's truck on the track ahead and plaintiff did not contradict the fact that he had knowledge that the train was approaching.

In *Bell v. Huson* (1960), 180 Cal. App. 2d 820, 4 Cal. Rptr. 716, as the court pointed out at page 720:

> ". . . the question as to the applicability of the doctrine takes on added difficulty since the ac-

cident occurred in the approach to an intersection and happened within a second or two."

In *Clarida v. Aguirre* (1957), 156 Cal. App. 2d 112, 319 P. 2d 20, as the Court pointed out (319 P. 2d 23):

> "It was not until the impact that defendant was aware of the danger, and, of course, it was then too late for him to do anything about it . . ."

In *Miller v. Western Pacific Railroad Co.* (1962), 207 Cal. App. 2d 581, 24 Cal. Rptr. 785, there was independent testimony that the whistle of defendant train "was blown for the crossing and it was also blowing specially for the vehicle that was coming down the road." (p. 788).

Furthermore the engine bell was on, the headlight was on bright position and other lights were on.

In *Welsh v. Gardner* (1960), 187 Cal. App. 2d 104, 9 Cal. Rptr. 453, the Court stated:

> "Under any view of the evidence, it fairly appears that defendant's opportunity to avoid the collision after he discovered that Danny was starting out in front of his car . . . was a matter of split seconds and was not the last *clear* chance contemplated by the rule." (p. 457).

The Court further points out *id.*:

> "As to the demonstration before the Court and jury as to timing of the actions of the pedestrians, the trial court saw it and heard the evidence in reference thereto and apparently was not convinced that there was substantial evidence to support the doctrine or that the last clear chance instruction should have been given."

In *Garcia v. Hoffman* (1963), 212 A. C. A. 540, there was nothing else defendant could have done to avert the accident.

In *Kavner v. Holzmark* (1960), 185 Cal. App. 2d 138, 8 Cal. Rptr. 145, the defendant did all he could and saw plaintiff when it was too late to do anything else. Plaintiff was jay walking and was not expected to be there.

In *Chambers v. Southern Pacific Co.* (1957), 148 Cal. App. 2d 873, 307 P. 2d 662, the defendant railroad blew the whistle several times. The case does not involve a pedestrian, since plaintiff was in an auto.

Under the particular circumstances of the case the engineer had a right to assume that plaintiff would remain stopped until the train passed and had no time to avoid the accident.

In *DiSandro v. Griffith* (1961), 188 Cal. App. 2d 428, 10 Cal. Rptr. 595, the defendant did everything he had time to do.

The Court held that (p. 599):

> "The evidence in this case is not sufficient to establish that the defendant had any knowledge of the plaintiff's presence" in time to avoid the accident.

In *Dyer v. Knue* (1960), 186 Cal. App. 2d 348, 8 Cal. Rptr. 753, after plaintiffs entered lane 1 (where the collision occurred), there was nothing defendant could have done to avoid the accident.

In *Todd v. Southern Pacific Co.* (1960), 184 Cal. App. 2d 376, 7 Cal. Rptr. 448, 451, the Court stated:

> "The record contains no evidence from which a jury could infer that (plaintiff) could have

> stopped short of the eastbound track . . ." (It would have taken plaintiff only a second to arrive at point of impact. Therefore, sounding a warning would do no good.)

[In the case at bar plaintiff was a pedestrian, and a pedestrian can stop on the spot.]

Nothing more could have been done to avoid the accident in *Todd,* and, as the court points out (p. 454):

> "Because the facts of an accident case are always unique, we do not discuss the cases upon which appellant chiefly relies (*Sills v. L. A. Transit Lines,* 40 Cal. 2d 630, 255 P. 2d 795, *Buck v. Hill,* supra, 121 Cal. App. 2d 352, 263 P. 2d 643), except to state that in our opinion they are not controlling here. They apply, to different factual situations, the same principles that we are applying."

In *Warren v. Ubungen* (1960), 177 Cal. App. 2d 605, 2 Cal. Rptr. 411, as the court indicated:

> "Plaintiff saw defendant's car coming and recognized the danger when he was far enough away to start his motorcycle and proceed in a southerly direction before the collision. Thus through the exercise of ordinary care he could have left the shoulder where he claims he was. Instead, under his own testimony, he proceeded straight ahead and struck the right rear of defendant's car which according to plaintiff's testimony was trying to get out of his way."

Fambrini v. Stikkers (1960), 183 Cal. App. 2d 235, 6 Cal. Rptr. 833, while not an intersection collision, involved special facts. Defendant brought her auto to a stop and plaintiff (on bicycle) hit the fully stopped car.

As the court indicated (p. 836):

> ". . . Several cases are cited for the proposition that it is a jury question as to whether the space of time allowed for avoiding the accident. *Selinsky v. Olsen*, supra; *Durkee v. Atchison, T. & S.F. Ry. Co.*, 159 Cal. App. 2d 615, 324 P. 2d 91. The distinction between these cases and the present is readily apparent. Both involved defendants who failed to take any action for some of the time available to them, and had they done so the accident might have been avoided. In the present case, the evidence is undisputed to the effect that respondent acted immediately and succeeded in stopping her car before it was hit by appellant . . . . . . Here the respondent acted immediately and stopped her vehicle."

And at page 837:

> ". . . the blind and unquestioning charge here was made by the bicyclist (plaintiff)".

The remaining cases cited by appellant are distinguishable as follows:

1. Cases of the Court of Appeals.

Hickambottom v. Cooper (1958), 163 Cal. App. 2d 489, 329 P. 2d 609, is distinguishable because the defendant had less than two seconds within which to react.

There was no evidence that defendant therein had any *time* to do anything to avoid the accident. [In the case at bar there was time for each or any one of at least three of defendant's agents to have acted so as to prevent the accident.]

Kowalski v. Shell Chemical Corp. (1960), 177 Cal. App. 2d 528, 2 Cal. Rptr. 319, involved an intersection collision at a *blind corner*.

As the court pointed out:

> "To hold that the last clear chance was applicable here would mean that there would be no intersection collisions to which the doctrine would not apply, and would completely do away with the defense of contributory negligence in such cases. Here it is clear that the accident was caused by the fact that because of the parked vehicles the motorcycle suddenly appeared in front of the oncoming car."

Dalley v. Williams (1946), 73 Cal. App. 2d 427, 166 P. 2d 595, involved a blind intersection, and plaintiff's motorcycle struck the defendant. There was "no evidence" that defendant could have avoided the collision.

As the court pointed out (p. 600), there was:

> ". . . no evidence that defendant could have stopped his vehicle . . . Swerving to the left or right would not have avoided the collision . . ."

2. Supreme Court Cases.

All of the following cases of the California Supreme Court are clearly distinguishable:

In *Hildebrand v. L. A. Junction Railway Co.* (1960), 53 Cal. 2d 826, 3 Cal. Rptr. 313, the Court merely affirmed the trial court's refusal to instruct; the collision was at a railroad crossing, and plaintiff struck defendant railroad train. Furthermore there was a railroad crossing sign painted on the pavement and a crossing sign on the shoulder of the road. Thus the court stated (p. 315):

> "When the fireman and the switchman first saw plaintiff, they had no reason to believe he would be unable to stop safely or that he was inattentive and would not learn of the danger by observing the railroad crossing sign painted on the pavement, the crossing sign on the shoulder of the road and the train itself."

There was also evidence that the headlight of the locomotive and the street lights over the crossing were lit *and the bell and horn were sounding.* There were strips of "Scotch Light," a reflected substance, on the sides of the locomotive.

[The case at bar did not involve a crossing, there were no warning devices or noises (such as a bell or horn) and there was knowledge on the part of defendant that the plaintiff was inattentive (two of defendant's principal witnesses testified that plaintiff did not observe the moving train as he walked towards the tracks).]

In *Rodabaugh v. Lekus* (1952), 39 Cal. 2d 290, 246 P. 2d 663, where the court merely affirms the action of the trial court, "There was no material conflict in the evidence" (p. 664), plaintiff's decedent failed to heed stop warnings against him which were directly within the range of his vision, and defendant was traveling on a through highway. Declared the Court (p. 665):

> "Disregarding for the moment the fact that defendant was traveling on the through highway and decedent was traveling on a road which was

plainly marked with stop warnings, it is apparent that this case presents the picture of one of the usual types of intersection collisions between two rapidly moving vehicles. It has been frequently stated that the last clear chance doctrine is ordinarily inapplicable under such conditions. (Citations omitted).

"As was said in *Poncino v. Reid-Murdock & Co.*, supra, 136 Cal. App. at page 232, 28 P. 2d at page 936:

> 'Like many other cases involving collisions between moving vehicles, the accident may be said to have happened within the twinkling of an eye after the first indication of danger. While the doctrine of last clear chance has been applied in certain exceptional cases involving collisions between moving vehicles, we are of the opinion that it should not be applied to the ordinary case in which the act creating the peril occurs practically simultaneously with the happening of the accident and in which neither party can fairly be said to have had a last clear chance thereafter to avoid the consequences.' "

The Court further points out that "plaintiffs failed to indicate in which direction they believed the defendant should have attempted to turn under these circumstances." [Appellees, in the case at bar, however, indicate the courses of action which were available to defendants' employees].

The Court goes on to distinguish some important last clear chance decisions (p. 667):

> "Plaintiffs cite . . . decisions, in which the last clear chance doctrine has been applied. *Bone-*

brake v. McCormick, 35 Cal. 2d 16, 215 P. 2d 728; *Center v. Yellow Cab Co.,* 216 Cal. 205, 13 P. 2d 918; *Bragg v. Smith,* 87 Cal. App. 2d 11, 195 P. 2d 546; *Root v. Pacific Greyhound Lines,* 84 Cal. App. 2d 135, 190 P. 2d 48, *Gillette v. City and County of San Francisco,* 58 Cal. App. 2d 434, 136 P. 2d 611; *Yates v. Morotti,* 120 Cal. App. 710, 8 P. 2d 519. . . . but they are all distinguishable on their facts. In none of the cited authorities was a through highway involved nor was there such a relation between the time, distance and speed factors as is found in the present case."

A District Court of Appeal case itself distinguished *Rodebaugh.* In *Buck v. Hill* (1953), 121 Cal. App. 2d 352, 263 P. 2d 643 (hearing denied) the court said:

> "There (in Rodebaugh v. Tekus) defendant's total time for reaction and effective action was somewhere between 1 ¼ and 1¾ seconds, where here defendant after he had completely reacted and started to apply his brakes had more than two seconds for effective action."

In *Doran v. City and County of San Francisco,* 44 Cal. 477, 283 P. 2d 1, the Court merely affirmed the actions of the lower court.

Furthermore, as the court pointed out at page 5:

> "Plaintiffs concededly knew . . . that it (the bus) was moving toward them . . . With this knowledge, they proceeded to step directly into the path of the oncoming bus; and in the light of this admitted knowledge, it cannot be said that plaintiffs were 'totally unaware' of their

> danger. Total unawareness of the danger, as contemplated by doctrine, does not exist where the injured party is fully aware of the approach of an oncoming vehicle up to the instant before the collision and then shifts his attention to look in some other direction while proceeding directly into its path."

[In the case at bar, plaintiff testified that he thought the train was standing still. The reasonableness of that assumption was bolstered by the corroborative testimony of independent witnesses that, under the circumstances, it was difficult to tell whether the train was moving or not.]

In *Shahinian v. McCormick* (May, 1963), 59 Adv. Cal. 575, 30 Cal. Rptr. 521, the Supreme Court, as previously pointed out herein, *reversed* the lower court for its *failure* to instruct on last clear chance.

In *Brandelius v. City and County of San Francisco* (1957), 47 Cal. 2d 729, 306 P. 2d 432 the court merely affirmed the action of the trial court in granting a new trial, and as the court points out "It is well settled that the granting of a motion for a new trial rests so completely within the discretion of the trial court that its action will not be disturbed unless a manifest and unmistakable abuse of discretion clearly appears (citations omitted)."

Moreover, the court merely revised, for reasons of clarity, the form of the instruction, and this revised form was used in the case at bar.

The court made no change in the substanstive law of last clear chance. The court expressly so stated at page 441:

"In restating the formula, it has not been our purpose to add or detract from the conditions prescribed in the approved formula set forth in the Girdner case and reiterated in our recent decisions."

IV.

CONCLUSION.

Under the law of California, applicable to the case at Bar, it not only was proper for the trial court to give the qualified instruction on last clear chance but it would have been error not to have done so.

The jury was entirely justified in finding from the evidence that the negligence of defendant railroad company was the sole proximate cause of the devastating injuries to the plaintiff, or to find that regardless of any negligence on the part of plaintiff, the negligence of the railroad company continued after they had the last clear chance to avoid the accident.

The liability questions so overwhelmingly preponderated in favor of plaintiff, that it would be a grave injustice to require him to try his case again.

The facts and the law justify an affirmance of the judgment.

Respectfully submitted,

Irving H. Green,

Attorney for Appellee.

Of Counsel:

Eliot Bernard Feldman

Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Irving H. Green.

No. 18,762

In the United States Court of Appeals for the Ninth Circuit

UNITED STATES OF AMERICA, APPELLANT

v.

CITY OF TACOMA, WASHINGTON, APPELLEE

Appeal from the United States District Court for the Western District of Washington

BRIEF FOR THE UNITED STATES, APPELLANT

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---

BRIEF FOR THE UNITED STATES, APPELLANT

OPINION BELOW

The district court did not write an opinion.

JURISDICTION

The district court had jurisdiction over the condemnation proceedings instituted by the United States under 28 U.S.C. sec. 1358. The judgment fixing just compensation to be paid to City of Tacoma was filed on January 14, 1963 (R. 79). The United States filed its notice of appeal on March 13, 1963 (R. 90). The jurisdiction of this Court rests on 28 U.S.C. sec. 1291.

QUESTIONS PRESENTED

1. Whether, when the United States takes an unqualified easement to construct and operate a roadway in connection with a flood control project and for such other uses as may be authorized by the Government, it may allow such roadway to be used for public highway purposes or general travel.

2. When the condemnee raises an issue whether an unqualified roadway easement may be used for public highway purposes or general travel, may the trial court enter a final judgment which expressly leaves the issue undecided over the objection of the condemnor?

STATEMENT

This is one of a series of condemnation cases filed in connection with the Howard A. Hanson Dam and Eagle Gorge Reservoir, King County, Washington, being constructed by the Corps of Engineers, United States Army.[1] The United States filed its complaint and declaration of taking in April, 1961, and an amended complaint and declaration of taking in October, 1961 (R. 2-28, 44-70). The property taken in the instant case is for a road easement. The declaration of taking describes the interest taken as follows (R. 16):

> 3. The estate taken for said public uses is perpetual and assignable easements and rights

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[1] Another aspect of this project was before this Court in *United States* v. *St. Regis Paper Co.*, 313 F.2d 45 (1962).

> of way to locate, construct, operate, maintain, and repair a roadway, in, upon, over and across Tracts Nos. F-613E-1, F-613E-2, F-613E-3, F-613E-4 * * * J-1001E-1 and J-1001E-2, together with the right to trim, cut, fell and remove therefrom all trees * * * or obstacles within the limits of the rights of way; subject, however, to existing easements for public roads and highways, public utilities, railroads and pipelines; reserving, however, to the landowners, their successors and assigns, all right, title, interest, and privileges as may be used and enjoyed without interfering with or abridging the rights hereby acquired by the United States.

Substantially identical descriptions of the estate taken are contained in the complaint and amended complaint (R. 2-3, 44-45). The declaration of taking stated that the land was taken "for use in connection with the Howard A. Hanson Dam and the Eagle Gorge Reservoir * * * and for such other uses as may be authorized by Congress or by Executive Order" (R. 15).

The fee owner of the tracts involved in this appeal is the City of Tacoma, Washington, which held the property as part of its municipal watershed. The City of Tacoma and the United States were agreed that just compensation for the City's property should be $5,531.17. The City, however, wanted the judgment to contain words to the effect that it should not be construed as granting to the United States or the public any right to use the roadway easement for public highway purposes or general travel. The Government would not agree to this, and to resolve the matter a pretrial hearing was held on December 10, 1962 (R. 101). On January 14, 1963, the parties filed a stipulation as to just compensation which provided in pertinent part (R. 77-78):

> It is stipulated and agreed by and between the parties hereto that the full, just compensation payable by plaintiff, United States of America, for the taking of a perpetual and assignable easement over said tracts together with other interests therein as more fully described in the declaration of taking herein, shall be the sum of Five Thousand Five Hundred and Thirty-One and 17/100 ($5,531.17) Dollars, inclusive of interest, and
>
> * * * *
>
> It is further stipulated and agreed that the said sum shall be full and just compensation and in full satisfaction of any and all claims of whatsoever nature against the United States of America by reason of the taking of the City of Tacoma's interests in land as described in the declaration of taking on file herein.
>
> The said parties agree that a Judgment in proper form based on the compensation herein stipulated may be hereinafter entered upon approval by both parties.

On the same date, a final judgment presented by the City of Tacoma was entered on this stipulation which was "Approved as to form" only by the United States (R. 81). The judgment, in addition to ordering just compensation based on the stipulation, contains these recitations and ruling (R. 79-80):

> THIS CAUSE coming on to be heard on the motion of the City of Tacoma, defendant herein,

and the action being one commenced under the plaintiff's right of condemnation to acquire easements necessary for the construction of a flood control project and uses incident thereto, and defendant, City of Tacoma, a municipal corporation, having appeared, and a stipulation having been entered into agreeing as to the fair and just compensation to be paid for the taking of said easements, and the City of Tacoma and the United States Government having raised and presented arguments to the Court concerning the rights taken and the Court noting these prior proceedings and being fully advised in the premises; * * *

* * * this court does hereby:

ORDER, ADJUDGE and DECREE that the just compensation which the United States of America shall pay to the City of Tacoma in accordance with the stipulation heretofore filed is the sum of $5,531.17 for the taking of the interests in the real estate as described herein and in the declaration of taking and amended declaration of taking filed herein, and it is

* * * *

FURTHER ORDERED, ADJUDGED and DECREED that nothing set forth in this Judgment shall be construed as deciding the contention raised by the City of Tacoma that the United States of America will not by these proceedings acquire a public road right of way or the rights to use these easements for public highway purposes or general travel, and the entry of this judgment shall not be construed as waiving the rights of the City of Tacoma, if any, to contend that the estate taken was for a private roadway only.

The United States filed a memorandum objecting to the final paragraph of the judgment, quoted above, on the grounds (1) "that it is the purpose of condemnation to settle all questions raised as to the estate taken at one time, whereas the inclusion of this language in the judgment invites further legal action on the point" and (2) "that it may be construed as enlarging or diminishing the estate taken by the government in this case, which the Court is powerless to do" (App. brief, pp. 24-25, R. 101). Pursuant to the Government's motion for rehearing and reconsideration of the judgment, a hearing was held on February 11, 1963 (R. 100). At that time the district court entered an order denying the motion. (*Ibid.*) The United States filed its notice of appeal on March 13, 1963.

SPECIFICATION OF ERRORS

The errors of the district court are:

(1) The failure of the court to rule as a matter of law that the declaration of taking was unqualifiedly for "easements and rights of way to locate, construct, operate, maintain, and repair a roadway" and that such unqualified taking of a roadway easement would be broad enough to allow the United States to use the roadway for public highway purposes or general travel.

(2) In the alternative, the failure of the court to rule the extent, if any, to which the use of the roadway by the United States, its permittees, licensees or the general public was qualified.

(3) The inclusion of the following language in the final judgment:

> Further Ordered, Adjudged and Decreed that nothing set forth in this Judgment shall be construed as deciding the contention raised by the City of Tacoma that the United States of America will not by these proceedings acquire a public road right of way or the rights to use these easements for public highway purposes or general travel, and the entry of this judgment shall not be construed as waiving the rights of the City of Tacoma, if any, to contend that the estate taken was for a private roadway only.

SUMMARY OF ARGUMENT

I

The Government intended to take an unrestricted roadway easement usable for any normal roadway purpose including travel by the general public. There can be no doubt that the Government wants an unrestricted and unqualified easement for its road. Once the government official decides the estate necessary to carry out an authorized public project, the function of the district court is to effectuate the transfer and determine just compensation. It is not the judicial function or duty to review the administrative determination. The many decided cases from this Court and others show that the United States cannot be compelled to take either a greater or a lesser estate than that described in the declaration of taking.

In the present case, the court below has in practical effect limited the estate which the United

States seeks to take without expressly deciding anything. If the district court had ruled specifically that the estate set out in the declaration of taking was for a private roadway, it would have been simply a matter of appealing from the lower court's interpretation. In the present circumstance, the Government will continue to argue that it has in fact already taken what it wanted, i.e., an unrestricted road easement, but the threatened litigation by the City of Tacoma will be constantly present. The United States can never be sure when the litigation will come. It is quite certain, however, that the use which the Government plans to make of the road is contrary to the City of Tacoma's contention that only a private roadway easement has been taken.

II

In any event, the court could not leave the issue of the nature of the roadway easement expressly undecided over the objection of the Government. While it is not the province of the district court to change the estate described in the declaration of taking, it clearly has jurisdiction in case of dispute to interpret precisely the estate described according to rules of legal construction. The general rule that a federal court cannot avoid questions within its jurisdiction was laid down by Chief Justice Marshall in *Cohens* v. *Virginia,* 6 Wheat. 264, 403 (1821). The decisions of this Court and many other recent cases support the general rule that when a party has the undoubted right to invoke the jurisdiction of the district court, it cannot abdicate its authority or duty in favor of another suit.

Some courts have critized the *Cohens* rule as being too broadly stated. The exceptions engrafted to the rule merely emphasize, however, how limited are the situations in which a federal court is justified in refusing to exercise properly invoked jurisdiction. For example, the application of the doctrine of *forum non conveniens* is premised on there being at least two federal courts with concurrent jurisdiction, and the one most convenient to all parties should be chosen. In the present case, there is not a single fact which makes it more advantageous to delay the decision of the nature of the easement which the Government has taken. Only confusion and clouding of the issues can result from delay.

ARGUMENT

I

The Government Intended To Take An Unrestricted Roadway Easement Usable for Any Normal Roadway Purpose Including Travel By the General Public

There can be no doubt that the Government in this case wants an unrestricted and unqualified easement and right of way for its road. The complaint and declaration of taking clearly describe such an easement. It is the intent of the Government to allow members of the general public to use this road under appropriate permits and regulations. The road is substantially a replacement for those parts of Forest Service Road 212 which will be flooded by the Eagle

Gorge Reservoir. Accordingly, the road will be used by loggers, truckers, campers and other persons using adjacent Forest Service lands. The road will also probably be used as a means of ingress and egress to the private timber holdings in the area, parts of which have been taken for construction of the dam and reservoir.[2] Cf. *United States* v. *St. Regis Paper Co.*, 313 F.2d 45 (C.A. 9, 1962); *United States* v. *Pope & Talbot, Inc.*, 293 F.2d 822 (C.A. 9, 1961).

Once the proper government officer has decided the title or estate in land necessary to carry out the authorized public project and that decision has been appropriately expressed in a declaration of taking, it is the function of the district court to effectuate the transfer of that property interest by determination and payment of just compensation. It is not, however, the duty or function of the district court to review the administrative determination, nor to decide that some property interest different from that described in the declaration of taking, whether greater or smaller, is what the Government needs for the project.

These legal principles are amply covered by many decisions from this and other circuits. Upon the fil-

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[2] It is understood that there is currently pending in the state courts in Washington a quiet title action between King County, Washington, and the City of Tacoma to secure for the inhabitants of the town of Lester, Washington, the right to use Forest Service Road 212 without interference. The United States is not a party to this action and is therefore not informed on the precise issues or the progress of the litigation.

ing of the declaration of taking, title to the property interest described therein vests in the United States and cannot thereafter, without the consent of the parties, be changed by court order.[3] *United States* v. *Carey*, 143 F.2d 445, 450 (C.A. 9, 1944); *United States* v. *Hayes*, 172 F.2d 677, 679 (C.A. 9, 1949), and cases there cited; *United States* v. *2,974.49 Acres of Land (Clarendon County, S. Car.)*, 308 F.2d 641, 643 (C.A. 4, 1962). Orders which the court enters touching on vesting of title "are really pro forma, or at most incidental, the real function of the court being to ascertain the just compensation to be paid and to distribute it. The court does not award the right of possession nor adjudge the title. The United States, acting through the Congress and the agencies which Congress appoints, takes what is needed, recognizing the courts as the constitutional organ to fix the constitutional just compensation and ascertain its owners." *Dade County, Fla.* v. *United States*, 142 F.2d 230, 231 (C.A. 5, 1944). Cf. *Catlin* v. *United States*, 324 U.S. 229, 239 (1945).

The unfettered discretion of the administrative officials in deciding what property should be included in a condemnation proceeding is indicated by this Court's decision in *Goodyear Farms* v. *United States*, 241 F.2d 484 (1956). In that case owners of land contiguous to an airfield were trying to intervene in a condemnation suit to acquire land for the ex-

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[3] We assume, of course, a constitutionally valid taking for a purpose authorized by Congress. There is no issue about authority to take in this case.

pansion of the airfield. These landowners claimed the flying of 400 planes a day over their property amounted to the appropriation of an avigation easement. This Court refused to allow them to intervene, saying "We are clear that, if any such right exists as to lands outside the area condemned, it cannot be adjudicated in the present proceeding." 241 F.2d at p. 485. In *United States* v. *Brondum*, 272 F.2d 642 (C.A. 5, 1959), the court refused to allow the declaration of taking describing a *clearance* easement to be interpreted as if there had been a taking of an *avigation* easement. The Fifth Circuit said in the *Brondum* case "The United States Government has complete discretion in determining whether to take a clearance easement or to take an avigation easement, and upon the filing of the declaration of taking and the depositing of the estimated compensation for the taking, here $2,000, the title described in the declaration passed to the Government. The district court lacked jurisdiction to compel the United States to take an avigation easement." 272 F.2d at p. 646.

Just as the United States cannot be required by the courts to take a greater estate than that described in the declaration of taking, as the above cases show, neither can it be compelled to take a lesser one. In *Berman* v. *Parker*, 348 U.S. 26 (1954), the lower court had indicated grave doubts as to the authority of the public agency in a slum clearance and urban renewal project to take full title to the land as distinguished from title to the objectionable buildings. "We do not share those doubts," said the Supreme

Court. "If the Agency considers it necessary in carrying out the redevelopment project to take full title to the real property involved, it may do so. It is not for the courts to determine whether it is necessary for successful consummation of the project that unsafe, unsightly, or insanitary buildings alone be taken or whether title to the land be included, any more than it is the function of the courts to sort and choose among the various parcels selected for condemnation." 348 U.S. at p. 36.

This Court has rejected an attack on the decision of the authorized government officer to take the land in fee, after having initially decided to take only an easement. It held that the estate to be taken is a matter for the officer's discretion. *Simmonds* v. *United States*, 199 F.2d 305, 306 (1952). Similarly in *United States* v. *Mischke*, 285 F.2d 628 (C.A. 8, 1961), the lower court wanted to reduce the acreage which the administrative officials had selected. The Court of Appeals would not uphold this approach, stating, "It is our opinion that the trial court lacked authority to review or to redetermine the question of the necessity for the taking of the 42.5 acres of the Mischke tract." 285 F.2d at p. 631.

For other examples where the courts have refused to vary the estate sought by the Government, see *United States* v. *64.88 Acres of Land (Allegheny County, Pa.)*, 244 F.2d 534 (C.A. 3, 1957); *United States* v. *Holmes*, 238 F.2d 229 (C.A. 4, 1956), earlier decision in same case, *United States* v. *2,648.31 Acres of Land (Counties of Charlotte and Halifax, Virginia)*, 218 F.2d 518 (C.A. 4, 1955); *United*

States v. *State of South Dakota*, 212 F.2d 14 (C.A. 8, 1954); *Oyster Shell Products Corp.* v. *United States*, 197 F.2d 1022 (C.A. 5, 1952), cert. den., 344 U.S. 885; *United States* v. *State of New York*, 160 F.2d 479 (C.A. 2, 1947), cert. den., 331 U.S. 832.

In the present case, the court below has in practical effect limited the estate which the United States seeks to take without expressly deciding anything. This is more unsatisfactory for the Government than if the district court had ruled specifically that the estate set out in the declaration of taking describes only a private [4] roadway interest. If there had been a holding clearly adverse to the Government's contention, it would have been simply a matter of appealing from the court's interpretation of the declaration of taking, and, if necessary, filing a supplemental one. In the present circumstance the Government will continue to argue that it has in fact already taken what it wanted, i.e., an unrestricted road easement, but the

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[4] The judgment of the district court speaks of "public road right of way", "public highway", "general travel" and "private roadway". These terms are not entirely free of ambiguity. For purposes of this brief we shall assume that "public road right of way", "public highway", and "general travel" refer to a use at least as great as a "forest development road" as that term is defined in the Federal Highway Act, 72 Stat. 885, 886, 23 U.S.C. sec. 101. It is assumed, however, that "public highway" was not meant to refer to a part of the system of public roads operated by the State. On the other hand, we shall assume that "private roadway" means a road to which no one has access except government employees in performance of their official duties or private parties who have been given limited access for special purposes such as removal of government timber. That, apparently, is the City of Tacoma's definition.

continued cloud of threatened litigation hangs constantly on the horizon. The City of Tacoma's legal argument has already been endorsed at the very least as a valid and justiciable issue by the final judgment of the district court. The United States can never be sure what use it can make of the road without precipitating the threatened litigation. It can never be sure under what changing economic circumstances the City of Tacoma may decide it is most advantageous to commence suit. It is quite certain, however, that the use which the United States plans to make of this road will be more than that of a mere "private roadway." In this state of affairs, the Attorney General cannot render to the acquiring agency a written opinion as to the validity of the Government's title, to the effect that the interest that the agency asked the United States to condemn has been so acquired, without noting the very serious impediments on that title.[5]

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[5] Where, as here, a declaration of taking was filed, money which has been appropriated for erecting public works on the land taken may be expended "notwithstanding the provisions of section 355 of the Revised Statutes" only after the Attorney General has rendered his opinion that "the title has been vested in the United States or all persons having an interest therein have been made parties to such proceeding and will be bound by the final judgment therein." Act of February 26, 1931, sec. 5, 46 Stat. 1422, 40 U.S.C. sec. 258e. Under this provision of law, the Attorney General renders a provisional title opinion, which is later finalized to comply with the provisions of R.S. sec. 355, as amended, 40 U.S.C. sec. 255, that "No public money shall be expended upon any site or land purchased by the United States for the purposes of erecting thereon any * * * public building of any kind

It is concluded that the final judgment of the district court varies the estate which the Government has sought to condemn in this case just as effectively as if the holding had been that the United States acquired only a "private roadway" instead of the unrestricted right of way to locate, operate and maintain a roadway. As such, it violates the rule announced in the cases cited above, pp. 11-14, that the courts lack jurisdiction to require the United States to take an estate in land different from that described in the complaint and declaration of taking.

II

In Any Event, the Court Could Not Leave the Issue of the Nature of the Roadway Easement Expressly Undecided Over the Objection of the Condemnor

Aside from the error of the district court in failing to hold that the City of Tacoma's contention that the United States took only a "private roadway" easement was without merit, it is ground enough for reversal of the judgment below that it sets out a presumably justiciable issue without deciding anything at all. While it is not the province of the district court to change the estate described in the declaration of taking, it clearly has jurisdiction to decide whether the declaration of taking is ambiguous and, if so, to interpret precisely the estate described according to acceptable rules of legal construction. The cases cited

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whatever, until the written opinion of the Attorney General shall be had in favor of the validity of the title." The ruling below thus throws doubt upon the ability of the Attorney General to perform his statutory duty.

in Point I of this brief contain examples where the courts have resolved controversies between the parties as to the meaning of the complaint or declaration of taking. See, e.g., *United States* v. *2,648.31 Acres of Land (Counties of Charlotte and Halifax, Virginia)*, 218 F.2d 518 (C.A. 4, 1955); *United States* v. *64.88 Acres of Land (Allegheny County, Pa.)*, 244 F.2d 534 (C.A. 3, 1957); *United States* v. *Brondum*, 272 F.2d 642 (C.A. 5, 1959). Indeed, we should suppose that the appellee is far more willing than the United States to concede that the extent of the estate described is, in case of doubt, a justiciable issue.

However, having an issue before it in a case in which it has original jurisdiction, viz., a proceeding to condemn real estate for the use of the United States, the district court has no discretion on whether to decide such issue now or in some subsequent action. The general rule that a court cannot avoid questions within its jurisdiction was laid down in the early days of federal jurisprudence by Chief Justice Marshall in *Cohens* v. *Virginia*, 6 Wheat. 264, 403 (1821):

> It is most true, that this court will not take jurisdiction if it should not: but it is equally true, that it must take jurisdiction, if it should. The judiciary cannot, as the legislature may, avoid a measure, because it approaches the confines of the constitution. We cannot pass it by, because it is doubtful. With whatever doubts, with whatever difficulties, a case may be attended, we must decide it, if it be brought before us. We have no more right to decline the exercise of jurisdiction which is given, than to usurp

> that which is not given. * * * Questions may occur, which we would gladly avoid; but we cannot avoid them. All we can do is, to exercise our best judgment, and conscientiously to perform our duty.

This Court followed the *Cohens* decision in *Southern California Telephone Co.* v. *Hopkins*, 13 F.2d 814, 820 (1926), aff'd., 275 U.S. 393 (1928), where it was stated that "As a sequel to what we have said, we hold that the District Court was correct in the opinion that it had jurisdiction and in the intimation that the merits were with the plaintiffs, but we think it erred in declining to exercise the jurisdiction. Decision that there was power to hear and determine removed any question of discretion, and left a bounden duty to proceed to a decree." [6] Among the many cases which have followed the *Cohens* rule are the following: *Allegheny County* v. *Mashuda Co.*, 360 U.S. 185, 188-189 (1959); *Meredith* v. *Winter Haven*, 320 U.S. 228, 234 (1943); *Kline* v. *Burke Construction Co.*, 260 U.S. 226, 234 (1922); *McClellan* v. *Carland*, 217 U.S. 268, 281 (1910); *Willcox* v. *Consolidated Gas Co.*, 212 U.S. 19, 40 (1909); *Kirby Lumber Co.* v. *State of Louisiana*, 293 F.2d 82, 86 (C.A. 5, 1961); *Beach* v. *Rome Trust Co.*, 269 F.2d 367, 374 (C.A. 2, 1959); *Ermentrout* v. *Commonwealth Oil Co.*, 220 F.2d 527, 530 (C.A. 5, 1955); *United States* v. *Hosteen Tse-Kesi*, 191 F.2d

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[6] Since this brief has been written, this Court has handed down another decision on the duty of the district court to decide issues properly before it. (*United States* v. *Benjamin T. Langendorf, et al.*, F.2d , decided August 22, 1963.)

518, 520 (C.A. 10, 1951); *Chicago Great Western Ry. Co.* v. *Beecher*, 150 F.2d 394, 398 (C.A. 7, 1945); *Mutual Life Insurance Co. of N.Y.* v. *Krejci*, 123 F.2d 594, 596 (C.A. 7, 1941). These cases all support the general rule that when a party has the undoubted right to invoke the jurisdiction of the district court, it must take the case and proceed to judgment. The Court cannot abdicate its authority or duty in favor of another suit.

Some courts have criticized the *Cohens* rule as being too broadly stated. Thus, the Supreme Court stated in *Massachusetts* v. *Missouri*, 308 U.S. 1, 19 (1939):

> We have observed that the broad statement that a court having jurisdiction must exercise it (see *Cohens* v. *Virginia*, 6 Wheat. 264, * * *) is not universally true but has been qualified in certain cases where the federal courts may, in their discretion, properly withhold the exercise of the jurisdiction conferred on them where there is no want of another suitable forum.

The exceptions to which the Court refers merely emphasize how limited are the situations in which a federal court is justified in refusing to exercise a properly invoked jurisdiction. Exceptions are made, for example, in application of the doctrine of *forum non conveniens.* The basic premise of the doctrine is that there are at least two federal courts with concurrent jurisdiction, and the one most convenient to all parties should be chosen. Even in these cases, however, the doctrine that the court whose jurisdiction is properly invoked must decide is given great weight. See

Burt v. *Isthmus Development Co.*, 218 F.2d 353 (C.A. 5, 1955). Another exception is made where a case raises a question of interpretation of controlling state law which should be settled in state courts. *Louisiana Power & Light Co.* v. *City of Thibodaux*, 360 U.S. 25 (1959). *Louisiana L. & P. Co.* is distiguishable, however, because the district court there did not refuse to decide the issue, but merely stayed proceedings while the parties sought the answer in the Louisiana state courts. See footnote 2, 360 U.S. at p. 27, distinguishing *Meredith* v. *Winter Haven*, 320 U.S. 228. Other exceptions are catalogued in *Meredith* v. *Winter Haven*, 320 U.S. 228, at pages 235-236, and *Allegheny County* v. *Mashuda Co.*, 360 U.S. 185, at page 189. Both these cases take great care to point out the narrowness of the exceptions in comparison with the breadth of the general rule. In the *Meredith* case the Court held, 320 U.S. at p. 234: "In the absence of some recognized public policy or defined principle guiding the exercise of the jurisdiction conferred, which would in exceptional cases warrant its non-exercise, it has from the first been deemed to be the duty of the federal courts, if their jurisdiction is properly invoked, to decide questions of state law whenever necessary to the rendition of a judgment." If they are forced to solve difficult and novel questions of state law, *a fortiori*, they are compelled to solve the question of what a pleading in the same case means. Similarly in the *Allegheny County* case the Supreme Court held, 360 U.S. at pp. 188-189: "The doctrine of abstention, under which a District Court may decline to exercise or postpone the exercise of its jurisdiction, is an extraordinary and narrow exception to the duty of a District Court to adjudicate a controversy properly before it. Abdication of the obligation to decide cases can be justified under this doctrine only in the exceptional circumstances where the order to the parties to repair to the state court would clearly serve an important countervailing interest." In the present case there is not a single fact which makes it more advantageous not to decide the issue of the nature of the easement which the Government has taken. To the contrary, every reason exists for the prompt decision of the question in the suit where it initially arises. Only confusion of the facts and clouding of the issue can result from delay. It is submitted that the present case comes within the broader category of cases where the district court cannot refuse to decide now.

Before closing this point, the Government must frankly state, having no wish to mislead the Court, that if the case is disposed of solely on the second point of this brief, i.e., simply a ruling that the district court must decide the question one way or the other, a second appeal to this Court may be necessary. If on remand the district court holds that the declaration of taking and complaint describe only a "private roadway", the Government will in all probability bring the case here again urging that the description is for an unrestricted roadway. As we view the case under the authorities cited in Point I of this brief, the meaning of the estate taken is purely a matter of law to be decided by the Court. This would also follow from Rule 71A(h), F.R.Civ.P., that in a condemnation trial all issues except just compensation shall be decided by the Court. We assume from the record that if the district court should hold for the Government, the City of Tacoma would appeal to this Court. It is therefore respectfully urged that the conservation of judicial energies would be better served by a resolution of the meaning of the estate described in the complaint and declaration of taking at this time. Compare *United States* v. *Sixteen Parcels of Land*, 281 F.2d 271 (C.A. 8, 1860), where, in a quiet title suit to determine the title acquired by the United States in condemnation proceedings almost 90 years earlier under state proceedings, the district court's decree contained the caveat:

> We do not mean to indicate, however, that Kansas City may use the land in question for any purpose it may desire. Section 29 of the Charter of 1908 provides that "The lands which may be selected and obtained under the provisions of this article *shall remain forever for parks, parkways and boulevards for the use of all the inhabitants of said city.*" We restrict our ruling upon that issue to the proposition that plaintiffs could not be vested with any title or right of possession by reason of the alleged diversion in the use of the land from park purposes.

The court of appeals considered the merits of this issue and ordered the caveat stricken.

CONCLUSION

For the above reasons it is respectfully submitted that the final judgment of the district court, entered January 14, 1963, is in error in reserving in the last paragraph thereof the contention of the City of Tacoma that the United States took only a "private roadway", and that said judgment should be modified by striking said final paragraph from the judgment.

Respectfully,

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SEPTEMBER 1963

CERTIFICATE OF EXAMINATION OF RULES

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

A. DONALD MILEUR,
Attorney, Department of Justice,
Washington, D.C., 20530.

APPENDIX

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
NORTHERN DIVISION

No. 5256

UNITED STATES OF AMERICA, PLAINTIFF

v.

29.98 ACRES OF LAND, MORE OR LESS, SITUATE IN KING COUNTY, STATE OF WASHINGTON, and CITY OF TACOMA, a Municipal Corporation, et al., DEFENDANTS

MEMORANDUM OF UNITED STATES IN OPPOSITION TO ENTRY OF JUDGMENT

Filed January 14, 1963

The City of Tacoma, pursuant to direction of the Court, has prepared a judgment which will conclude the case as it regards the City of Tacoma and the United States. The United States objects to the following paragraph:

> FURTHER ORDERED, ADJUDGED AND DECREED that nothing set forth in this Judgment shall be construed as deciding the contention raised by the City of Tacoma that the United States of America will not by these proceedings acquire a public road right of way or the rights to use these easements for public highway purposes or general travel, and the entry of this judgment shall not be construed as waiving the rights of the City of Tacoma, if any, to contend that the estate taken was for a private roadway only.

The United States objects to the inclusion of this paragraph in the judgment on the grounds that it is the purpose of condemnation to settle all questions raised as to the estate taken at one time, whereas the inclusion of this language in the judgment invites further legal action on the point. The United States also objects to the language on the grounds that it may be construed as enlarging or diminishing the estate taken by the government in this case, which the Court is powerless to do. *Western* v. *McGehee*, 202 F.Supp. 287, 290 (D. Md. 1962); *United States* v. *4.43 Acres of Land*, etc., 137 F.Supp. 567, 572 (N.D. Tex. 1956).

/s/ BROCKMAN ADAMS
United States Attorney

/s/ THOMAS H. S. BRUCKER
Assistant United States Attorney

☆ U S GOVERNMENT PRINTING OFFICE: 1963 706564 254

No. 18762

In the United States Court of Appeals
FOR THE NINTH CIRCUIT

UNITED STATES OF AMERICA,
Appellant,

vs.

CITY OF TACOMA, WASHINGTON
Appellee.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF WASHINGTON

BRIEF FOR THE CITY OF TACOMA, APPELLEE

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CITATIONS

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vs.

CITY OF TACOMA, WASHINGTON
Appellee.

Appeal from the United States District Court for the Western District of Washington

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BRIEF FOR THE CITY OF TACOMA, APPELLEE

RESTATEMENT OF THE CASE

The statement of Appellant omits several important matters. Appellant's original Complaint filed April 18, 1961, and Amended Complaint filed October 25, 1961, to which the Notice of Taking refers, clearly state the proposed use for which the property is to be taken as follows:

> "3. The use for which the property is to be taken is for the public use for the construction, operation and maintenance of a flood control proj-

> ect and for other uses incident thereto." (R. 2, 44)

The Declaration of Taking by the Secretary of the Army, Elvis J. Stahr, Jr., on April 3, 1961, declares in Paragraph 1 (a) that the legislative authority for the taking are various acts of Congress

> "which authorize the acquisition of land for flood control projects; . . . the project for the Eagle Gorge Reservoir, on the Green River, Washington; . . . the dam to be constructed as the Howard A. Hanson Dam; and the Act of Congress approved September 2, 1958 (Public Law 85-863), which act appropriated funds for such purposes."

The Secretary of the Army further declares in Paragraph 1 (b):

> "The public uses for which said land is taken are as follows: The said land is necessary adequately to provide for the construction of a flood control project and for other uses incident thereto. The said land has been selected by me for acquisition by the United States for use in connection with the Howard A. Hanson Dam and the Eagle Gorge Reservoir, on the Green River, in King County, State of Washington, and for such other uses as may be authorized by Congress or by Executive Order." (R. 15)

The Secretary of the Army further declares in Paragraph 3:

> "The estate taken for *said* public uses is perpetual and assignable easements and rights of way to locate, construct, operate, maintain, and repair a roadway . . . " (R. 16) (Emphasis ours.)

Paragraph 4 of the original and amended Complaint, however, states in part:

> "4. The interest in the property to be acquired is a perpetual and assignable easement and right of way to locate, construct, operate, maintain and repair a roadway . . ." (R. 2, 44)

The contention of the Appellee, City of Tacoma, reflected in the final Judgment (R. 80) to the effect that the estate taken was for a private roadway only, was based on these declarations of purpose and the official government departmental reports establishing and limiting the project as a flood control project and recognizing the City's interest in protecting its municipal water supply from pollution since the project was being built in its watershed.

The government reports are perpetuated in the House of Representatives Document No. 271 of the 81st Congress (Ex. A). This document, for example, sets forth in Paragraph 76 on Page 41 the following statement by Col. Hewitt, the Corps of Engineers District Engineer:

> "76. *Recreational Development of the Reservoir Area.* No plans for recreational development of the reservoir area are presented. The reservoir lies entirely within the watershed area of the Tacoma municipal water-supply system and it is certain that the city would protest any development that might lead to contamination of the water supply. Furthermore, the Puget Sound region is well supplied with numerous fresh-water lakes that have permanent pools and that are much more readily accessible to the metropolitan area than would be the Eagle Gorge Res-

ervoir, and it appears, therefore, that recreational facilities at the reservoir are not needed."

When at a later time, but prior to the entry of Judgment, it was discovered that the limitations of the use of this property were not clearly understood by the United States Attorney and certain agencies of the Federal Government who purportedly considered this road to be usable for purposes other than those incident to a flood control project, the City submitted on May 13, 1962, nineteen interrogatories to the United States specifically designed to clarify the extent of the proposed use. These read as follows:

" 1. Is the United States Government condemning the property involved in the above-entitled action for the use of the United States Government in its development of the Howard A. Hanson Dam and the Eagle Gorge Reservoir?

2. Will the land that is taken in the above entitled proceeding be used for purposes other than for the maintenance, operation and control of the Howard A. Hanson Dam and Eagle Gorge Reservoir?

3. If the answer to Question No. 2 is "Yes", please explain.

4. Is the United States Government condemning the right of way involved in the above-entitled case for the use of the Corps of Army Engineers, or for the United States Forest Service, or some other Federal agency?

5. What Federal agency or branch of the United States Government will control or maintain the right of way over the 29.98 acres of land which is under condemnation in Cause No. 5256?

6. If that agency is the United States Forest

Service, what use will they make of that land?

7. Explain the multiple use concept of the United States Forest Service.

8. Will the road right of way and land which is taken in Cause No. 5256 be used for the multiple use purposes of the United States Forest Service?

9. Will this land be opened to public access?

10. Will this land and the road located thereon be used for recreational purposes?

11. Will the United States Government restrict the use of this road and the area surrounding in such a manner as to protect the City of Tacoma's Watershed from use by the general public for recreational purposes?

12. Will the United States Government restrict the use of the road involved in this condemnation and the area around it in such a manner as to protect the City of Tacoma's Watershed from through traffic by the general public?

13. Is the United States Forest Service a department or branch of the United States Department of Agriculture?

14. Will the United States Government or the United States Forest Service use the road and property here under condemnation in such a manner as to be consistent with the terms of an agreement and contract entered into between the United States Department of Agriculture and the City of Tacoma on March 27, 1914, a copy of which is attached hereto and marked as Exhibit "A", and which agreement provided for the protection of the City of Tacoma's water supply and limited the use of roads in the Snoqualmie National Forest?

15. Will the road and right of way located on

the 29.98 acres of land be used for purposes other than that of marketing, cutting and disposing of timber, as provided in Exhibit "A" attached hereto?

16. If the answer to Interrogatory No. 15 is "Yes", explain what use will be made.

17. Will individuals owning private property or campsites in the area known as the City of Tacoma's Green River Watershed be permitted to use the road located in the above-entitled condemnation for access to the campsites and property?

18. After the condemnation of the easement for road purposes in the above-entitled proceeding, will the United States Government or its assigns interfere with the City of Tacoma's right to control the use of the storage area lying below the 1206 foot flood line as condemned in District Court Cause No. 4854?

19. After the condemnation of the easement for road purposes in the above-entitled proceeding, will the United States Government or its assigns interfere with the right of the City of Tacoma to prohibit the use of the property lying below the 1206 foot flood line, as condemned in District Court Cause No. 4854, from commercial, private and recreational purposes?" (R. 74)

None of these interrogatories were answered. Judgment was entered January 14, 1963.

This failure to answer the interrogatories was called to the Court's attention, at the argument on the Appellant's motion for rehearing, in the Appellee's Brief in Support of Judgment.

The District Court Judge William T. Beeks commented as follows:

"THE COURT: I think you are quite well aware of the reason the Court included that in the Judgment, Mr. Brucker, basically that I did not think the Government had been fair with the City of Tacoma in the particular circumstances of this case and the use of the particular property that is involved out there as a watershed. Furthermore, I do not think it prejudices the government as you contend. I am going to deny your motion." (R. 92, 93)

SUMMARY OF ARGUMENT

Appellee's argument in support of Judgment and in answer to Appellant contains essentially similar matter and are combined for brevity. The contention of the United States that the Declaration of Taking was unqualified would, under the circumstances peculiar to this project, make such declaration arbitrary, capricious and fraudulent. Appellee contends that the effect of the Judgment is a determination that the United States has acquired only the estate authorized and reasonably necessary for its project purposes, a private roadway easement which is substantially less than rights for a public highway. Such determination is consistent with the administrative declaration of necessity. Such determination is within the power of the Court to make. The language of the Judgment could have been drafted in various ways to more clearly state this determination, but the clear import of this Judgment when examined with the record of legislative intent and necessity is a determination supporting Appellee's contention that the estate taken was for a private roadway only. There should be no uncertainty as to this determination in the minds of the interested United States officials, and if there is uncertainty, it is of their own making and this Court should not attempt to resolve such dilemma.

The Federal Government is under an obligation in condemnation proceedings to advise the property owners as to the exact rights which they are taking and also of those rights which are reserved to the property owners after the land has been taken. The Judgment is sufficiently protective of the interests of the City of Tacoma and does not prejudice any rights of the Government or preclude the Appellant from later attempting to secure such greater interests for which it may obtain proper legislative and administrative support and authorization.

ARGUMENT

I

The Government can only take an estate which is reasonably necessary for its purposes and this is what it acquired.

Appellant contends that the Government intended to take an unrestricted roadway easement usable for any normal roadway purpose including travel by the general public, saying "There can be no doubt" about this since "the complaint and declaration of taking clearly describe such an easement."

This contention begs the question.

Appellee has clarified the background of this dispute under the Restatement of the Case. The United States Government had decided upon the construction of a flood control project. Examination of the supporting studies and recommendations of the various interested departments of the Federal Government, in the House of Representatives Document No. 271 (Ex. A) establishes without question the careful consideration that was given to the effect on the City of Tacoma's municipal watershed. It was recognized by all concerned that the project would provide flood control, water storage and fish life benefits, none of which would be inconsistent with the protections required by Tacoma. It was likewise recognized that recreational and related uses were incompatible with watershed management and no provision for such uses was recommended. The United States Government, in short, was not constructing a national park or forestry camps or a scenic highway route when it provided in the flood control project plans for the relocation of the access roads necessary to the construction and operation of its facilities.

Nor is it correct to say, as Appellant has said in its brief that

> "the road is substantially a replacement for those parts of Forest Service Road 212 which will be flooded by the Eagle Gorge Reservoir. Accordingly the road will be used by loggers, truckers, campers and other persons using adjacent Forest Service lands."

Appellant calls the Court's attention in a foot note that there is pending litigation between King County and the City of Tacoma concerning the County's right to establish public rights in an access road it never properly opened. These are not the same roads but if linked together without limitation of public use could seriously prejudice the Tacoma municipal water supply by increasing the water pollution hazards.

Appellant correctly states that the road will

> "probably be used as a means of ingress and egress to the private timber holdings in the area, parts of which have been taken for construction of the dam and reservoir."

This limited use is compatible with the needs of all parties involved in the project land acquisition program. The timber companies have access needs of a limited nature. They are cooperative in the watershed management practices enforced by the City of Tacoma. They likewise have a practical and historical need to keep the access roadways private.

Paragraph 4 of the Declaration of Taking, the Complaint and Amended Complaint (R. 2, 16, 44) specifically state

> "reserving, however, to the landowners, their successors and assigns, all right, title, interest and privileges as may be used and enjoyed without interfering with or abridging the rights hereby acquired by the United States."

It is obvious, therefore, that if access is required into the Tacoma Watershed it must, for the protection of the greater public interest in public health of the municipal water consumers, be limited to such roadways as are necessary and useful for project, timber and watershed management purposes.

These matters were known to the Congress at the time of passing the enabling legislation authorizing the project. They were known to the Secretary of the Army at the time of his making the Declaration of Taking. He is charged with the administrative responsibility in making such determination to carry out the congressional intent and to take only what is reasonably necessary to accomplish that purpose.

The Declaration of Taking should, therefore, be construed as authorizing only a lesser estate or private roadway. This will provide for and accomplish the needs of the United States as related to *this flood control project.* If the Congress desires to do something else in the area not so related *it* must in turn adopt suitable legislation on which a proper administrative determination can be based. The administrative determination in other words cannot exceed the congressional authorization. Yet this is what Appellants in effect contend by saying that it was the intent to declare unlimited public use by the additional words "and for such other uses as may be authorized by Congress or by Executive Order." (R. 15) Such additional language confers no rights, it is *restrictive* language since it contemplates additional legislative authorization before such private use could be widened.

Appellant would seek to prohibit the District Court inquiry into the administrative determination saying it is not the duty or function of the Court to review it nor to decide that some other property interest greater or smaller is what the Government needs for the project.

Appellee contends that the District Court has both the power and duty to inquire into the administrative determination of public use and necessity.

Arbitrary, capricious and fraudulent action by an administrative head can always be inquired into and such action set aside by the Court.

In *United States vs. 1,298.15 Acres in Boone County, et al,* 108 F. Supp. 549, a condemnation action for the Bull Shoals Dam and Reservoir flood control project, the District Court for the Western Division of Arkansas stated on Pages 552 and 553:

> "(3, 4) It will be noted that the authority delegated to the Secretary of the Army is 'to acquire in the name of the United States title to all lands, easements, and rights-of-way necessary for any dam and reservoir project * * * for flood control.' The Secretary of the Army's determination of 'necessity' under this grant of authority is subject to judicial review. The administrative determination has great weight, and the court must give due consideration to the action of an administrative agency in selecting a particular tract of land to be taken, but the administrative agency cannot invoke the political power of the Congress to such an extent as to immunize its action against judicial examination in contests between a citizen and the agency.
>
> "(5, 6) Under the facts in this record the question before the court is whether the Secretary of the Army's determination of necessity for the

taking of this tract was arbitrary and capricious. Before a court can reverse an administrative determination that a taking was necessary there must be a showing on the part of the landowner to the effect that the acquiring agency acted arbitrarily, capriciously and without an adequate determining principle. The landowner has not sustained this burden in this case and the court cannot say that the action of the Secretary of the Army in selecting this tract of land was without adequate determining principle and reason or that his action was arbitrary and capricious."

The rule was similarly pronounced in *United States vs. 1,096.84 Acres in Marian County, et al*, 99 F. Supp. 544, involving condemnation for the same project.

In *United States vs. 15.38 Acres of Land in New Castle County, Del., et al*, 61 F. Supp. 937, an action in condemnation to acquire a perpetual easement for a railroad spur track connecting to an air base, the Court said on page 939:

"In these matters, the court should be hesitant in substituting its discretion or belief for that of the Secretary of War who, under Act of Congress, is clothed with authority to make the determinations of necessity and extent. The judge should only intervene where there is a conclusive showing that the Secretary's determination is not made in good faith and hence is arbitrary. . . . In passing, it is suggested that if respondents can show at trial by a factual base, in contradistinction to the conceptualistic arguments that have been made here, that the Secretary of War's decision rests on an absence of good faith, then the whole matter of necessity and extent of estate sought to be acquired will be critically re-examined; otherwise, not."

In *United States vs. 929.70 Acres of Land, In Hughes County, S. D.*, 205 F. Supp. 456, a condemnation action for the South Dakota Big Bend Dam and Reservoir, the Court in upholding the action of the Secretary of the Army said on Page 459:

> "The necessity for the taking, the discretion exercised by the agency validly authorized with such powers, the extent and interests to be taken, and the determination of whether the thing taken is so taken for public use, are not reviewable, in the absence of allegations and proof that such acts were arbitrary, *United States v. Mischke*, 8 Cir., 285 F. 2d 628 (1961); *Mississippi & Rum River Boom Co. v. Patterson*, 98 U.S. 403, 25 L. Ed. 206; S.D.C. 55.0103; *Berman v. Parker*, 348 U.S. 26, 75 S. Ct. 98, 99 L. Ed. 27, and *Borden's Farm Products Co. v. Baldwin*, 293 U.S. 194, 55 S. Ct. 187, 79 L. Ed. 281."

It was not error, therefore, for the District Court to interpret the congressional authorization and administrative declaration as an intent to take only what is reasonably necessary for the project purposes. This works no injustice on the parties. To have ruled otherwise in the face of the undisputed factual background would have instead countenanced arbitrary, capricious and fraudulent action. It would be arbitrary and capricious for the Secretary of the Army to attempt to replace a private road with a public road in this municipal watershed under circumstances peculiar to this project. It would likewise be actual or constructive fraud for the same official to declare greater rights than were reasonably necessary for the project under his control to accommodate purposes of *other* governmental agencies which they could not by themselves accomplish.

It is significant that the United States did not answer any of the Appellee's interrogatories which were specifically drafted to inquire into such improper action. Interrogatory No. 14 attached as Exhibit "A" a copy of an agreement between the United States Department of Agriculture and the City dated March 27, 1914, and providing for the protection of the City's water supply and limited use of roads in the Snoqualmie National Forest. The question of consistency of use and purpose was not answered, nor were other similar questions exploring other possible inconsistent purposes.

It is the position of the City of Tacoma that the Federal Government is under an obligation in a condemnation proceedings to advise the property owners as to the exact rights which they are taking and also of those rights which are reserved to the property owners after the land has been taken.

The following quotation from *State vs. Rank*, 293 F. 2d 340 (1961), at page 358, would show that the City's position is well taken:

> "In an exercise of its power of eminent domain, then, the United States must commit itself as to what is taken and as to what remains untaken. That which remains untaken and continues vested in the owner, the officers of the United States must continue to respect.

"In the case at bar, the operation of Friant Dam was not of such a character as to notify these plaintiffs as to the extent of the seizure of their rights. Nor was it accompanied by any sufficiently definite uttered or written notification.

"We conclude that the water rights of these plaintiffs have not been acquired by the United States through exercise of its power of eminent domain."

In *United States vs. 1,278.83 Acres of Land, More or Less, in Mecklenburg County, Va., et al*, 12 F.R.D. 320, a condemnation action, interrogatories by Defendants as to whether the taking of an entire farm was necessary, and if so why, were required to be answered by the Government. The Court said on pages 320 and 321:

"The United States has requested the Court to reconsider its decision requiring answers to the interrogatories. A statement of what issues, aside from valuation, are justiciable in a condemnation case may be helpful.

"(1) Whether or not the purpose for which the property is taken is public is a judicial question. *Rindge v. Los Angeles County*, 262 U.S. 700, 43 S. Ct. 689, 67 L. Ed. 1186. I do not read *U.S. ex rel. Tennessee Val. Authority v. Welch* as altering this doctrine of the Supreme Court. 327 U.S. 546, 552, 556, 557, 66 S. Ct. 715, 90 L. Ed. 843; *U.S. v. Carmack*, 329 U.S. 230, 67 S. Ct. 252, 91 L. Ed. 209. If the purpose is a public use, then the courts cannot inquire into the need, expediency or advisability of undertaking the project—that is, they cannot question the necessity for pursuing the use. *U.S. ex rel. Tennessee Val. Authority v. Welch*, 4 Cir. 150 F. 2d 613, 616, reversed on other grounds 327 U.S. 546, 66 S. Ct. 715, 90 L. Ed. 843.

"(2, 3) Furthermore, whether defined legislatively or administratively, the extent of the take is of judicial cognizance to the extent that it may be questioned as arbitrary or capricious. It follows that a landowner must be heard on whether there is some basis for including his land. Of course, the action of the legislative branch of government alone weighs heavily in favor of the area sought, and the decision of an administrative officer itself likewise demands deference, but neither is so absolute and final as to bar even the effort of the proprietor to demonstrate the choice to be capricious or arbitrary. Rarely will the selection be overturned but that very fact concedes the existence of the right. Improbability of success is not the measure of the right. *U.S. v. State of N.Y.*, 2 Cir., 160 F. 2d 479, 480; *U.S. v. Carmack*, 329 U.S. 230, 67 S. Ct. 252, 91 L. Ed. 209. The immediate implication of the last-cited decision is that while the legislative or administrative ascertainment of what property should be taken is not reviewable 'on its merits' —that is, the sufficiency of the reasons for the decision—it may still be attacked to expose the want of any reason. See, too, *U.S. v. Meyer*, 7 Cir. 113 F. 2d 387, 392, certiorari denied 311 U.S. 706, 61 S. Ct. 174, 85 L. Ed. 459; *U. S. v. Certain Parcels of Land in Town of Denton, etc.*, D.C. Md., 30 F. Supp. 372, 379 opinion by Judge Chesnut; *Carmack v. U.S.*, 8 Cir., 135 F. 2d 196, 200, first opinion, and 8 Cir., 151 F. 2d 881, second opinion, reversed on other grounds 329 U.S. 230, 67 S. Ct. 252, 91 L. Ed. 209, supra; *U. S. v. 4450.72 Acres of Land*, D.C., 27 F. Supp. 167, 175 affirmed 125 F. 2d 636; *U. S. v. 40.75 Acres, D.C.* 76 F. Supp. 239, 249.

"(4) If the condemnee has the right to debate the take in any respect, he has the right to be informed of the facts in that particular. Instantly, the property owner merely asks if his entire farm is necessary, and if so, why. This is not to doubt the wisdom of the project—the necessity for the condemnation—but only to inquire the reason for expropriating all of his farm. Presumably there is a reason. I do not find answer to condemnee's question in either the pertinent Acts of Congress or the pleadings, as the Government suggests. I would not expect to do so; neither would ordinarily so particularize. But if they are there, the Government can the more readily reveal them in replying to the interrogatories. Incidentally, both the petition for condemnation and the declaration of taking aver that the Secretary of the Army chose the lands. As the Government's brief says Congress did so, answer to interrogatory 3 becomes quite relevant. The 4th interrogatory obviously touches the issue of valuation and clearly should be answered.

"I adhere to my original views and direct that all of the interrogatories be answered."

The condemnor, whether representing Federal, State or Municipal authorities, does not have unfettered discretion in these determinations as claimed by Appellant.

If the rule were otherwise, no property rights would be sacred and a chaotic condition of arbitrary and capricious action would prevail.

There is well established court rule and case precedent to the contrary. The determination of the District Court is consistent with these rules and the interpretation of the taking consistent with the rules and the facts. The acreage is not affected. The United States acquired the land interest reasonably necessary for its project and the Judgment so provides. This can only be what the Government intended and it is not in any way prejudicial to the use of the private roadway for the United States' purposes in this project or the particular private purposes of the other parties to the action including Appellee.

This works no hardship on the United States nor any of its agencies. Any thwarted plans or intentions to make of this road greater uses or more than that of a mere "private roadway" as vaguely referred to by Appellant were inconsistent with the proper congressional intent in the first place. Nor is it any proper argument to say that the Attorney General cannot now write a validating title opinion. He can certainly say that title has vested in the United States in this proceeding to the use of a private roadway just as he must do and probably has done in other similar cases where easements of a limited nature have been so acquired.

The Judgment properly permitted the taking of what was reasonably necessary and protected the City's rights to that which was not.

II

The District Court Judgment if not construed as a final determination that the United States acquired only a private roadway easement, does not prejudice any rights of the Government and properly protects the City of Tacoma under the circumstances. No further action by this Court is required.

Appellant contends that nothing has been decided below, that the District Court somehow dodged the issue and abdicated its authority or duty in favor of another suit. Appellant suggests to the Court that for the purpose of eliminating the need for further controversy a determination of the estate taken be made by this Court.

Appellee does not agree with either proposition. The matter has been determined with finality by the District Court insofar as needs to be determined at this time. This Court surely cannot on the limited assertions of the Appellant, or on a record absent supporting facts, make a redetermination of the question of necessity.

The District Court must have considered that the United States was getting the limited roadway easement it had legislative authority to take, use and was paying for. Had it considered that the contention of the United States was the proper one it obviously would have rejected the contention of the Appellee and entered Judgment accordingly. The burden is on the Government to establish public use and necessity. This it has attempted to dodge throughout the lower court proceedings. It must, however, have been apparent to the District Court from the nature and background of this matter that the United States did not for this flood control project reasonably need to acquire a public road where a private easement or roadway would suffice. Since this was all that was authorized and reasonably necessary to be acquired it was all that the Court could approve and award damages accordingly.

The Washington State Courts like the Federal Courts are willing to protect the property owner from the desires of a condemning authority who seek to condemn greater land rights than authorized. See *Little vs. King County*, 159 Wash. 326, which contains the following quotation:

> "When a municipality acquires land by eminent domain for road or street purposes, it acquires only a conditional fee title. If the road or street be vacated or abandoned, the land reverts to the abutting owners as their respective interests may then be. The above clause of the judgment should have added thereto the following: 'for a public road or highway.'
>
> "That part of the judgment proposed by appellant to the effect that respondents should be required to give a deed to the roadway cannot be upheld under any theory."

This does not prejudice the United States since with proper congressional enabling legislation and intention the need for greater rights can be considered if and when the necessity for such further taking is ever established.

The damages to which Tacoma would be entitled in the event of the unlimited public access to its watershed, however, would be substantially in excess of those awarded in the Judgment pursuant to the stipulation of parties. (R. 77)

Unlimited public access to the watershed on a public road developed by the United States and not necessary to this project could literally cost the City millions of dollars by requiring the construction and operation of a filtration treatment plant in lieu of the simple but effective chlorination purification system now used.

The Appellee, therefore, could have been seriously prejudiced by the Court acceptance of the Government's contention. Although Appellee would have favored a more clear determination that the roadway easement acquired was a private roadway, this in any event can be the only consistent interpretation of the effect of the Judgment.

Appellant created its own dilemma but seeks to avoid the consequences of its action.

It becomes increasingly clear that Appellant must have had some other undisclosed purposes in seeking approval of its contention since it is certainly not prejudiced by leaving the necessity for greater rights to be decided if ever at some appropriate time in the future when the then existing factual basis for such need can be fully presented to the Court in a proper manner for consideration.

Appellant, however, seeks to have this Court accept its rejected contention by setting aside that part of the Judgment properly protective of the City's interest. This proposal again is reflective of the superiority of contention claimed by the Appellant. It declared a need for a roadway easement, it paid for the same and this is what it now has. This is the estate that was necessary for its project purposes and the City is protected in the event the Government attempts to open the road to public travel.

Judgments entered in condemnation proceedings are subject to later interpretation. *Holdridge vs. United States*, 282 F. 2d 302 (1960). Any doubts in the interpretation of a decree in a condemnation action must be resolved against the party who sought to exercise the power of eminent domain. *Clause vs. Garfinkle*, 231 SW 2d 345.

To now accept the Appellant's contention actually involves more than a question of law since there are no facts on record in support of the Government's position. Appellee believes that on the record before the Court the Court can only decide that the contention of the Appellee is correct and the estate acquired by the United States is only a private roadway at best. In fairness to both parties, however, if the Court believes the matter must now be further resolved the case should be remanded for the taking of further evidence.

Had the Government position been made clear at the time of filing the Complaint, the City of Tacoma would have insisted on a formal hearing at which time the United States would have been compelled to prove the necessity for a public road in this municipal watershed. Appellee believes the United States cannot now properly show a reasonable necessity for a public road and should not be allowed to side-step its responsibility by having this Court eliminate the protective language on the mere assertions of the Appellant previously rejected below.

CONCLUSION

Appellant has only established reasonable necessity for a private roadway, a concept consistent with the legislative background and declaration of taking for this flood control project in the City of Tacoma's municipal watershed and supported by the Judgment of the District Court. This Judgment is sufficiently protective of the parties' present interest in view of the late disclosure of other purposes by the Appellants. If the need arises in the future to establish greater rights, the matter can be properly determined in the light of then existing legislative authorization and determinations of necessity. There is no need or authority for this Court at this time to do anything but affirm the Judgment below.

Respectfully submitted,

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Argal D. Oberquell
by Paul J. Nolan
of Attorneys for Appellee, City of Tacoma.

CERTIFICATE OF EXAMINATION OF RULES

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

PAUL J. NOLAN
Chief Assistant City Attorney

No. 18,762

In the United States Court of Appeals for the Ninth Circuit

UNITED STATES OF AMERICA, APPELLANT

v.

CITY OF TACOMA, WASHINGTON, APPELLEE

Appeal From The United States District Court For The Western District of Washington

REPLY BRIEF FOR THE UNITED STATES, APPELLANT

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INDEX

CITATIONS

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REPLY BRIEF FOR THE UNITED STATES, APPELLANT

I

THE GOVERNMENT INTENDED TO TAKE AN UNRESTRICTED ROADWAY EASEMENT USABLE FOR ANY NORMAL ROADWAY PURPOSE, INCLUDING TRAVEL BY THE GENERAL PUBLIC

Appellee does not dispute our contention that the language in the complaint and declaration of taking clearly describes an unrestricted right of way for the road. Instead, it argues that the Government was only authorized to take a "private roadway easement" and, in effect, contends that the complaint and declaration of taking were *pro tanto* invalid. It bases this argument on some immaterial legislative history which states (H. R. Doc. No. 271, 81st Cong., 1st sess., Cong. Doc. Ser. No. 11325, pp. 41-42):

> No plans for recreational development of the reservoir are presented. The reservoir lies entirely within the watershed area of the Tacoma municipal water-supply system and it is certain that the city would protest any development * * *. Furthermore, * * * it appears * * * that recreational facilities at the reservoir are not needed.

Whatever effect this legislative history may have on the operation of the reservoir,[1] it clearly does not prohibit the Corps of Engineers from condemning a right of way for a replacement for those parts of Forest Service Road 212 which will be flooded by Eagle Gorge Reservoir. The right of the Government to condemn land for replacement of improvements flooded out by a reservoir project is illustrated by decisions of the Supreme Court, this Court and other courts. See, e.g., *Brown* v. *United States,* 263 U.S. 78, 82 (1923) (providing a substitute town

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[1] This non-directive language is merely part of a report made by the District Engineer to his superiors, stating how it is conceived the project would operate and was not, in terms, adopted by Congress. To imply statutory limitations on executive authority from such descriptions of proposed operations of dam and reservoir projects would drastically curtail administrative flexibility contrary to established practice in executing authorized projects.

site); *United States* v. *Miller*, 317 U.S. 369 (1943) (providing a substitute railroad right of way); *St. Regis Paper Co.* v. *United States*, 313 F.2d 45 (C.A. 9, 1962) (relocation of a railroad); *Feltz* v. *Central Nebraska Public Power & Irr. Dist.*, 124 F.2d 578, 582 (C.A. 8, 1942) (relocation of a highway). Nor does the fact that the Corps of Engineers is having this land condemned for use of another government agency, the Forest Service, invalidate the taking. *United States ex rel. T.V.A.* v. *Welch*, 327 U.S. 546 (1946).

Appellee apparently concedes that the Government has authority to take the right of way for a "private roadway easement" (Br. 14, 19 *et seq.*). This brings us to the question of whether, when a taking of property is clearly authorized, the person whose property is being condemned can limit the estate taken. It is reiterated that the estate to be taken is a matter for the proper administrative official. *Berman* v. *Parker*, 348 U.S. 26 (1954); *Lewis* v. *United States*, 200 F.2d 183 (C.A. 9, 1962), cert. den., 345 U.S. 907; *Simmonds* v. *United States*, 199 F.2d 305, 306 (C.A. 9, 1952); *United States* v. *Kansas City, Kan.*, 159 F.2d 125 (C.A. 10, 1946). This rule applies to the nature of the estate, as well as to the quantity of land as the last cited cases show.

There is a second independent reason why appellee's contention that there is no statutory authority to take the estate clearly described in the complaint must fail. If appellee had such a defense to the taking, it should have been raised by an answer to the complaint within 20 days after service of notice in this case. "A defendant waives all defenses and objections not so presented * * *." Rule 71A(e), F.R. Civ.P.[2]

Appellee challenges (Br. 9) the correctness of the statement in our opening brief (pp. 9-10) that:

> the road [being condemned here] is substantially a replacement for those parts of Forest Service Road 212 which will be flooded by the Eagle Gorge Reservoir. Accordingly, the road will be used by loggers, truckers, campers and other persons using adjacent Forest Service lands.

Appellee does not spell out the basis of its challenge. We reiterate the factual correctness of the first sentence, and contend that the proposition of the second sentence naturally follows.

Appellee asserts (at p. 10 of its brief) that the litigation between King County and the City of Tacoma, now pending in the state courts of Washington, does not involve Forest Service Road 212. (See our opening brief, p. 10, fn. 2.) Although this state litigation is admittedly not a controlling factor in this federal condemnation case, we challenge the accuracy of the assertion. We assume, of course, that the City is not making a merely technical quibble such as that

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[2] It is no answer to argue that this issue goes to jurisdiction of the court to condemn the interest described because that is the kind of objection contemplated by Rule 71A(e) (in fact, this is about the only valid defense to a taking) and even constitutional objections can be waived. *United States* v. *Nudelman,* 104 F.2d 549 (C.A. 7, 1939), cert. den., 308 U.S. 589.

the state litigation concerns a different segment of Forest Service Road 212.

Appellee attempts to inject into this appeal an issue as to why certain interrogatories served on the United States Attorney on May 15, 1962, were not answered. The Government's position is that the issue is simply not before the Court on this appeal. The record does not disclose why the interrogatories were not answered, although it may be surmised that it was because of settlement negotiations being carried on in this and related suits between the City of Tacoma and the United States. Moreover, the City of Tacoma was willing to sign a stipulation as to just compensation eight months later without ever having received an answer to its interrogatories and without insisting on an answer. In any event, the failure to answer interrogatories has no tendency to support the judgment now on appeal.

Finally, it must be noted that none of the federal cases which appellee cites actually hold that a property taking is unauthorized. Thus, all the language quoted by appellee, insofar as it seems to indicate a right to review the administrative determination as to the estate taken, is at most dictum by lower federal courts.[3] *State* v. *Rank*, 293 F.2d 340 (C.A. 9, 1961), relied on by appellee was reversed to the extent that it held the property involved (water rights) could not be taken by the administrative officers by

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[3] The error of this dicta is spelled out in a brief recently filed by the United States in another case before this Court, *United States* v. *Cobb*, No. 18,836. Copies of this brief are being transmitted to counsel for the City of Tacoma.

inverse condemnation. *Dugan* v. *Rank*, 372 U.S. 609, 623 (1963).

II

IN ANY EVENT, THE COURT COULD NOT LEAVE THE ISSUE OF THE NATURE OF THE ROADWAY EASEMENT EXPRESSLY UNDECIDED OVER THE OBJECTION OF THE CONDEMNOR

Appellee meets the second point of the Government's opening brief with the ambiguous contention that (Br. 20): "The matter has been determined with finality by the District Court insofar as needs to be determined at this time." This contention is made in the face of the express language of the final judgment that it is not deciding whether an easement "for public highway purposes or general travel" or "a private roadway only" has been acquired by these proceedings (R. 80). Aside from repetition of its first argument as to lack of power to take, this contention is simply a claim that the United States had not proved necessity for a public road to the satisfaction of the district court (e.g., Br. 20). The question of necessity has never been determined by the lower court for the reason it is an administrative, not a judicial, question. *Berman* v. *Parker*, 348 U.S. 26 (1954), and other authorities cited in Point I of our opening brief. The question of public use is, of course, a judicial question, *provided it is properly raised in the lower court.* Rule 71A(e), F.R.Civ.P. However, the question of public use cannot be raised for the first time on appeal. That there is a presumption that land condemned by the United States will be devoted to a public use is shown by the provision of Rule 71A(e), F.R.Civ.P., that objections on this ground not made within 20 days are waived. The declaration of taking itself contains a determination that it is necessary to take the estate described therein, in the opinion of the executing officer. No further proof is needed. Cf. *Old Dominion Co.* v. *United States*, 269 U.S. 55, 66-67 (1925).[4]

The appellee intimates that the Government somehow concealed the estate it desired to take or the use to which the easement will be put in the future. The estate the Government desires is clearly set forth in the complaint and declaration of taking. The plats attached to these documents show the condemned roadway easement will connect the portions of Forest Service Road 212 severed by the reservoir and another project road (R. 27-28). Appellee could hardly deny that it knows of Forest Service Road 212, which has been in existence approximately 30 years, or the uses which have been made of it. Moreover, future use which the Government makes of property it condemns is immaterial in valuation of the property taken, so long as such use does not amount to the taking of an interest in property different from that set out in the complaint. See *United States* v. *Buhler*, 305 F.2d 319, 329 (C.A. 5, 1962).

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[4] State law concerning reverter after the public use has ceased (Br. 21) has nothing to do with a federal case where there is no power of the courts so to limit the title taken. *United States* v. *Sixteen Parcels of Land in City of St. Louis*, 281 F.2d 271 (C.A. 8, 1960).

CONCLUSION

For the above reasons it is respectfully submitted that the final judgment of the district court, entered January 14, 1963, is in error in reserving in the last paragraph thereof the contention of the City of Tacoma that the United States took only a "private roadway," and that said judgment should be modified by striking said final paragraph from the judgment.

Respectfully,

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November 1963

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No. 1 8 7 6 9

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

OBERT H. LUND,

Appellant

-vs-

M JONAS, Trustee

Appellee

FILED

PETITION FOR RE-HEARING

APPEAL FROM
UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF
CALIFORNIA, CENTRAL DIVISION,
HON. M. D. CROCKER, DISTRICT JUDGE

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IN THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

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ROBERT H. LUND,

Appellant

-vs-

SAM JONAS, Trustee,

APPELLEE

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PETITION FOR RE-HEARING

TO THE HONORABLE PRESIDING JUDGE AND TO THE HONORABLE ASSOCIATE JUDGES OF THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT:

Appellant Robert H. Lund respectfully petitions this Honorable Court for a re-hearing of its order granting appellee's motion to dismiss the appeal in the above entitled cause rendered on the twenty-third day of December, 1963, and in support of his petition respectfully states:

The within appeal presents the question of whether an attorney, who has not been authorized by his clients to do so, may be required to reveal the names and addresses of clients in an action to which the clients are strangers.

This question is of such grave concern to the legal profession and to the public at large that it should not be permitted to turn on the negligence of the appellant's attorney to prepare, serve, and file the appellant's open brief within the time prescribed by law.

It is respectfully submitted that your Honorable Court should enter its order vacating the judgment of dismissal heretofore entered in this cause and allowing the filing of the appellant's opening brief which has been lodged with the Clerk of your Honorable Court.

Respectfully submitted,

JOHN R. BRUNNER
Attorney for Appellant

CERTIFICATE OF COUNSEL

I, John R. Brunner, certify:

I am the attorney for the appellant herein.

I verily believe that the appellant has good and just cause for the presentation of the within appeal, that in my judgment the within Petition for Re-Hearing is well-founded and is not interposed for the purpose of delay, and that the interests of justice and of the legal profession would be served if the within petition is granted and the appeal heard on its merits.

Executed at Long Beach, California,
January 21, 1964.

JOHN R. BRUNNER
Attorney for Appellant

No. 18,774.

IN THE

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT.

PAUL SACHS ORIGINALS CO.,
Appellant,

vs.

JOHN SACHS and LEO HIRSCH, Doing Business as
SACHS OF CALIFORNIA, a Partnership,
Appellees.

BRIEF OF APPELLANT.

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Cases Cited.

Statutes Cited.

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BRIEF OF APPELLANT.

STATEMENT OF JURISDICTION.

This action was instituted by plaintiff-appellant, hereinafter referred to as appellant, Paul Sachs Originals Co., for infringement of Certificates of Registration No. 502,925 and No. 708,120, issued by the United States Patent Office on October 12, 1948 and December 6, 1960, respectively, and for unfair competition, by reason of the use of the term "SACHS of California" by defendants-appellees, hereinafter referred to as appellees, both as a trademark to distinguish women's dresses produced and sold by appellees and to distinguish their business devoted to the manufacture and sale of dresses, in view of the prior use by appellant of the trademarks PAUL SACHS Original and DON SACHS in conjunction with women's dresses, as well as in view of the prior use by appellant of the term Paul Sachs Originals Co. as a trade name for its business. The Complaint appears at page 2 of the Record.* The jurisdiction of the District Court was invoked under Title 15 of the United States Code, Section 1121; under Title 28 of the United States Code, Section 1338 (a) and 1338 (b); and by further reason of the fact that this action is of a civil nature between citizens of different States, appellant being a Missouri corporation and appellees being residents of the State of California, in which the amount in controversy exceeds the amount of Ten Thousand Dollars ($10,000), exclusive of interest and costs. The Answer of appellees John Sachs and Leo Hirsch is set forth at page 24 of the Record. The Answer placed in issue the questions of trademark infringement and unfair competition, as it contained a denial that the concurrent use of the trademarks and trade names of the parties in conjunction with their respective dresses and dress businesses would be likely to cause confusion or mistake or deception of purchasers as to the source of origin of the goods.

The action was tried on the issues framed by the Complaint for trademark infringement and unfair competition (R 2) and the Answer (R 24). The District Court did not make findings of fact and conclusions of law, but in substitution therefor prepared and filed a Memorandum of Decision (R 30). The judgment dismissing the complaint was entered on April 5, 1963 (R 52). A Notice of Appeal was timely filed on May 3, 1963 (R 54).

This Court has jurisdiction of this appeal pursuant to Title 28 of the United States Code, Section 1291, and Title 15 of the United States Code, Section 1121.

* References to the Record will hereinafter be indicated "R", and references to the transcript of testimony will be referred to by "RTR".

STATEMENT OF THE CASE.

The District Court in its Memorandum of Decision (R 30) held:

> "* * * that the merchandise of the parties is not identical and that the trademarks are clearly distinguishable by their customers and that there is no likelihood of confusion from the use of the tradename and trademark 'Sachs of California' by the defendants."

The issue is raised by the appeal from the Judgment providing the dismissal of the complaint. Appellants prosecute this appeal to seek a reversal of the Judgment of the District Court as it considers the judgment to be most damaging to the primary assets of its business, its trademarks, with the prospect of continuous dilution of its said trademarks being implicit by virtue of such Judgment.

The cardinal issue in this cause is whether or not the concurrent use of the trademarks of the parties upon the respective merchandise, namely women's ready-to-wear dresses, is likely to cause confusion or mistake or deception among retail customers as to the source of origin of the goods. The same issue relates to the tradenames used by the parties for identifying their dress manufacturing businesses.

The basic facts of the case are as follows: appellant commenced using its trademark PAUL SACHS Originals in May, 1942 to identify ladies' and misses' dresses, Exhibit 1, which it produces and sells, and has continuously used said trademark upon its dresses to the present time (RTR 205). Since August, 1959, appellant has also used the trademark DON SACHS to identify another line of women's dresses it produces and sells known as "petites" (RTR 145), and has also continuously used that trademark to the present time (RTR 206). All dresses sold by appellant from May, 1942 have been identified by either one or the other of appellant's trademarks (RTR 206, 209) and such dresses have been sold upon a national scale since such first use (RTR 220, 221). Appellant's sales for its dresses identified by the said trademarks from 1942 to the date of trial, May, 1962, have exceeded annually $1,500,000 (RTR 224) and during this period appellant has expended a total of $400,000 to advertise its dresses under said trademarks (RTR 222). Appellant at the time of trial was selling its dresses under the said trademarks to an estimated 1,200 accounts (RTR 232) and during the 10 years prior to trial had sold its dresses to over 2,500 different accounts (RTR 232). Appellant sends its advertising pieces, such as Exhibit 67 (RTR 230) and like publicity material concerning its dresses under the said trademarks to a mailing list of over 13,500 prospective accounts (RTR 230).

Appellant maintains a sales force of 8 men for covering the United States (RTR 225) and has showrooms in St. Louis, Missouri; New York, New York; and Dallas, Texas (RTR 215). Appellant's dresses are sold to department stores and specialty shops (RTR 97, 211) (and see Vogue Magazine Exhibits).

Appellant's trademark PAUL SACHS Originals is the subject matter of United States Registration No. 502,925, Exhibit 1, which has become incontestable by reason of the filing on October 22, 1953 of affidavits under Sections 8 and 15 of the Trademark Act of 1946 (15 U. S. C. 1058a, 15 U. S. C. 1065). Said registration sets forth a disclaimer to any exclusive right to the use of the word "Original". The trademark DON SACHS forms the subject matter of United States Certificate of Registration No.

708,120, Exhibit 2, which was published in the Official Gazette of the United States Patent Office on September 20, 1960, Exhibit 70. The merchandise covered in each registration is ladies' and misses' dresses.

Appellant has advertised its dresses under its trademarks in national consumer publications from November 15, 1942, Exhibit 7, and continued such advertising through the early 1940's and early 1950's as in Vogue, Mademoiselle and Charm, Exhibits 10 through 34, inclusive, 36, 38, 40 through 44, 47 and 49 (RTR 215).

National advertising was suspended temporarily in the mid 1950's in view of certain internal circumstances of appellant but was resumed in the February 15, 1960 issue of Vogue magazine, Exhibit 25. Appellant's dresses have been advertised under its trademarks by various of its customers from mats supplied by appellant (RTR 235), Exhibits 59 through 63, inclusive (RTR 236) being exemplary of advertisements prepared therefrom by California accounts of appellant before inception of appellees' business.

With respect to its operations in California during the 10 year period prior to the commencement of appellees' business in the Fall of 1960, appellant, through its representative, Mr. Eddie Silk, sold its dresses in an average annual volume of $100,000 at wholesale (RTR 114); during such period appellant's dresses under its trademarks had been sold to an estimated 300 California accounts (RTR 114), at least 100 of which were annually active. Appellant's dresses under its trademarks had been sold during said period in over 75 different California cities, with the annual number being between 60 and 70 (RTR 115). During this 10 year period Mr. Silk had exhibited appellant's dresses at the Pacific Coast Travelers Association Market Week in the Biltmore Hotel in Los

Angeles, California, 5 times annually (RTR 90, 91). Mr. Silk also displayed appellant's dresses regularly at similar markets in San Francisco, Seattle, Portland and Phoenix, during the same period (RTR 90).

On September 26, 1960, appellees, John Sachs and Leo Hirsch recorded Articles of Partnership of their firm known as SACHS of California (R. 25). John Sachs, who for three years prior had been a partner in the firm known as Steffi of California (RTR 505), is the active manager of appellees' firm (RTR 498), while Mr. Hirsch takes no part in the day-to-day operations (RTR 63). Appellees' firm produces and sells women's ready-to-wear dresses which are identified by a cloth label, Exhibit A, bearing the trademark "SACHS of California", which dresses are characterized by appellees as "young misses or missy" (RTR 382). Appellees' dresses under their said trademark are sold to department stores and specialty shops (RTR 510). Appellees, since forming their partnership, cause their dresses under their said trademark to be displayed at the Pacific Coast Travelers Association Market Week at the Biltmore Hotel in Los Angeles, California (RTR 516). Appellees are members of an organization known as California Fashion Creators (RTR 513) and display at market weeks sponsored by that organization (RTR 514). Appellees gave no evidence as to volume of sales either in dollars or units, but 75% of their business is conducted in the State of California (RTR 541), wherein they have sold their dresses to around 175 to 200 accounts (RTR 540). The other 25% of appellees' business in its dresses under its said trademark is outside the State of California, with two-thirds of such out-of-state business being east of the Rockies (RTR 542). During the year preceding trial sales were made in 41 states (RTR 538). Appellees have not advertised their dresses in national consumer publications and gave no evidence of any expenditures for advertising.

Before adopting its trademark, appellees did not search the records of the United States Patent Office (RTR 64). Appellant notified appellees in June, 1961, of its objection to appellees' use of the term "Sachs of California"; said notice being less than nine months after appellees' commencement. Appellees did not refrain from usage of said mark and this litigation ensued.

SPECIFICATION OF ERRORS.

1. The court erred in not holding that appellees' use of the trade name and trademark SACHS of California did infringe appellant's trademarks;

2. The court erred in not holding that appellees' use of the term SACHS of California constituted unfair competition;

3. The court erred in denying appellant the relief prayed for in the complaint;

4. The court erred in dismissing the complaint.

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ARGUMENT.

I. INTRODUCTORY.

From the facts of this case, it is evident that **appellant has priority of usage** of their trademarks and tradename so that there is no question concerning same. In addition to the matter of priority, there are two primary aspects in cases of this type, one being the goods of the parties and the other being the trademarks of the parties. Although both of the parties produce and sell women's ready-to-wear dresses for resale to retail customers in department stores and specialty shops, the District Court held the merchandise to be different on the ground that the dresses were not identical. Since it is firmly believed that the District Court's finding is contrary to law and to the evidence, one major section of the argument is directed to the relationship of the goods of the parties as viewed in light of the market place, pertinent precedents, and statutory law. A second major section of the Argument is devoted to the similarity of the trademarks, and inferentially, the tradenames of the parties, which, it is most strongly urged, are confusingly similar. In its Memorandum of Decision (R 30) the District Court did not cite a single precedent or make reference to the Trademark Act of 1946, so that there was no indication as to how the Court considered the issues of this case in view of the decisions in prior, immediately apposite cases and of pertinent statutory provisions.

II.

MERCHANDISE OF THE PARTIES SO RELATED AS TO BE CAPABLE OF EMANATING FROM SAME SOURCE.

Although the merchandise of both parties is women's ready-to-wear dresses which are sold at retail in department stores and specialty shops, the District Court held the merchandise of the parties to be different upon the ground that the same were not identical (R 50). For reasons to be discussed hereinbelow, appellant maintains that the goods of the parties are, for all practical purposes, identical, but it is submitted that the District Court erred in not applying the proper standard for determining the relationship of the goods of the parties. In cases of this type **the criterion is whether the respective merchandise could emanate from a single source of origin.** California observes this criterion, as evidenced by the statement of this Court in **Audio Fidelity, Inc. v. High Fidelity Recordings, Inc.** (CCA 9—1960), 283 F. 2d 551, 127 USPQ 306. In that case this Court stated:

> "The immediate problem in all cases is whether the offending name or mark is used for a functional purpose. If not, then it must be determined whether the similarity is likely to result in **confusion of source.**" (Emphasis ours.)

In **Brooks Bros. v. Brooks Clothing of California, Ltd.** (D. C. S. C. Calif.—1945), 60 F. Supp. 442, 65 USPQ 301, affirmed by this Court, 158 F. 2d 798, 72 USPQ 66, the court stated:

> "* * * Protection will be afforded even in the case of non-competitive goods, business and services, where, because of prior use, '**confusion of source**' may result." (Emphasis ours.)

Similarly, the pertinent Statute, Title 15, United States Code, Sec. 1114 (1), provides the same standard:

> "Any person who shall, in commerce, (a) use, without the consent of the registrant, any reproduction, counterfeit, copy, or colorable imitation of any registered mark in connection with the sale, offering for sale, or advertising of any goods or services on or in connection with which such use is likely to cause

confusion or mistake or to deceive purchasers **as to the source of origin of such goods** or services * * * shall be liable to a civil action by the registrant for any or all of the remedies hereafter provided * * *." (Emphasis ours.)

Accordingly, a determination that the merchandise of the parties is not identical is not determinative of whether the same could emanate from a single source of origin.

It is submitted that the findings of the District Court as set forth in its Memorandum of Decision (R 30) concerning the merchandise of the parties with respect to the various properties, characteristics, and attributes of the dresses of the parties, establishes, in truth, the immediate relationship of the same, for the distinctions noted point up most sharply the similarities. If two competitive concerns wish to make a profit, they will not be expected to intentionally produce dresses which are identically dimensioned, of identical colors, of identical styling, for sale at identical prices in identical stores and shops in identical trade areas.

The District Court did find that the size ranges of the dresses of the parties overlapped (R 46); that the price range of the dresses of the parties overlapped (R 47); that both parties produce black dresses (R 47); that both parties use the same names for colors incorporated in their dresses (R 47); that both parties catered to the youthful look (R 45); and that both parties strived to have a distinctive line (R 45). These findings alone more than support the intimate relationship of the merchandise of the parties. The District Court obviously failed to consider the ephemeral nature of the parties' merchandise, since styles, colors, patterns and the like change from season to season with the whims of stylists, so that, for instance, any color differential in one season does not preclude a color coincidence in the next season.

A. Physical Similarities.

1. Styling.

The District Court held that the "young missy" dress of appellee was distinguishable from the "misses" and "petite" dresses of appellant, despite the fact that the District Court stated:

> "But this is a matter of individual discretion, and if a dress fits a woman, she is a potential customer" (R 44).
>
> "All manufacturers cater to the youthful look" (R 45).
>
> "Style seems to be a feature which varies from season to season, but youthful styles, alone, are furnished or advertised, and all manufacturers seek to be known for youthful styles in all sizes. The woman retail buyer seeks a dress that fits and that 'does something for her,' an expression which connotes making her look more attractive in her eyes and generally more youthful than might ordinarily be expected" (R 45).

Recognition of these basic facts vitiates grounds for distinction between the parties' dresses.

Appellees' witness Miss Jefferson stated that a young missy dress was:

> "* * * more of a career girl's dress, a young professional or career, business, young college girl. Where the missy [misses] dress we consider as a little more mature woman wearing it" (RTR 268).

Appellees' witness Mrs. Hope Sachs testified that for the young missy type of dress, the age bracket would be from 19 to "even 40," but added that "age is in the mind" (RTR 373). Mrs. Sachs stated that although her age was 37 (RTR 373), she considered herself to be a "young missy person" and hence wore young missy dresses (RTR 374). Thus, the testimony of these witnesses shows that the word "young" as utilized in the expression "young missy" relates entirely to a subjective state of mind; the eyes of the beholder being the determinant. Although Mrs. Sachs is certainly not an old woman, one cannot consider the age 37 to be that of a "young college girl." Consequently, the use of the word "young" in "young missy" represents nothing more than the expected effort of a garment manufacturer to appeal to the constant feminine urge to look young. Appellant is equally aware of this human tendency, as evidenced by the legend "Expressions of Youth" at the bottom of each page in its swatch book, Exhibit 92 (RTR 251). That the aim of appealing to one's desire to be young is not of recent origin with appellant is evidenced by its early advertisement in Vogue magazine, issue of November 15, 1942, Exhibit 7 (RTR 259), which was published almost eighteen years before the inception of the appellees, and wherein, in referring to its PAUL SACHS dresses, appellant makes the following statement:

> "PAUL SACHS Originals * * * are styled for you who like YOUNG clothes."

Also note appellant's Exhibits 8, 9, 20 (RTR 259), wherein it used the notation "Junior Styles in Misses' Sizes." This same emphasis is apparent in its more recent advertisements, as witness its Vogue Magazine ad of May, 1960, Exhibit 12 (RTR 259), wherein the following appears:

> "Slim **young** silhouette, * * *." (Emphasis ours.)

In the present proceeding, appellees did not prove any difference in the styling of the dresses of the parties, and the only distinction that does exist is in the use of the word "young" in the expression "young missy."

The lack of distinction was evident from the testimony of appellees' expert witness Herman Schechter. After testifying that he could probably determine from a sketch of a dress whether the dress could be categorized as a misses dress or a young missy dress, he was unable to make such a distinction when actually presented sketches of appellant's dresses as appearing in Exhibit 68 (RTR 489-490). Mr. Schechter further testified that he could not make any distinction unless he knew the manufacturer (RTR 492). On direct examination, Appellees' witness Miss Jefferson testified that there was a difference in styling between the dresses of the parties. On cross-examination, Miss Jefferson admitted that she had never had any contact with appellant or ever purchased any of its goods, and that her first examination of appellant's styles had been only a cursory study of appellant's swatch book of 1959, Exhibit 92, immediately before she took the stand (RTR 276-277). This Exhibit showed styles of a past season and hence could not properly provide any basis for a comparison of the styles of the parties current at the time of the trial.

Illuminating was the testimony of appellant's expert Mr. Eddie Silk, who testified that the dress Mrs. Sachs was wearing in the courtroom on Wednesday, May 23, was a misses dress (RTR 158), although Mrs. Sachs admittedly wore appellees' dresses. The same dress was, in her eyes, a young missy, while in the eyes of a third party, a misses dress. Any attempt to make a distinction relative to the age of the wearer of the parties' dresses was negated by appellees' witness Miss Jefferson, who stated that a thirty-year old woman and a seventeen-year-old girl could buy the same dress (RTR 295).

Therefore, the record is devoid of any proof as to a distinction in styling. However, if, perchance, during the course of any one season there should exist some difference in styling of the dresses of the parties, such distinction would be of no moment, since the same would not preclude comprehensive style coincidence during a succeeding season, nor in any way serve to prevent the goods from being considered as emanating from the same source. Most apt is the case of **Williamson-Dickie Mfg. Co. v. Davis Mfg.**

Co. (CCA 3-1958), 251 F. 2d 924, 116 USPQ 303, wherein the defendant sought to distinguish its boys' clothing from that of plaintiff upon the ground that they were "tailored garments." The Court admitted that defendant's line was more expensive and of a better quality than the play suits, work suits, dungarees, etc., which constituted the larger part of the plaintiff's line, but, in holding for the plaintiff, the Court stated:

> "However, there is some overlapping and, even if there were not, it was held in National Dryer Manufacturing Corp. v. The National Drying Machinery Co., 228 F. 2d 349, 108 USPQ 54, that the trademark owner will be protected in a field so closely allied to his business that he may reasonably be expected to enter into it."

2. Color.

Efforts were made by appellees to distinguish the parties' dresses upon the basis of color; suggesting the existence of a concept of "California colors."

In examining, and self-servingly commenting upon, the colors in appellant's swatch book for its 1959 summer line, Exhibit 92, appellees' witness Mrs. Sachs stated that appellant's colors were dark, with twenty-five per cent being sold in black (RTR 397). Mrs. Sachs wore one of appellees' black dresses in the courtroom (RTR 372), and numerous of appellees' advertisement exhibits showed conclusively that black was one of its most frequently used colors, Exhibits I, J, K, L-2, and M (RTR 427-428). She testified that appellees could not exclude black from their line (RTR 428). Appellees' Exhibit FF showed that a particular garment was offered in the color navy. This was surprising in view of the testimony of appellees' expert witness Mr. Irving Singer, a fabric salesman, who said that he had not sold any navy in the last three or four years; "It is a dead issue out here [meaning California]" (RTR

341). Appellees found that dresses in such a non-"California color" as navy, are still in demand in California.

In comparing the color of appellees' garment in its Exhibit L-1 (RTR 388) with a maize color swatch in appellant's Exhibit 92, Mrs. Sachs testified that the colors looked similar (RTR 429). She also admitted that appellant's Exhibit 92 showed pinks, whites, etc., just as were set forth in appellees' own advertisements (RTR 429).

It is to be observed that the efforts of appellees' witnesses Mrs. Sachs and Miss Jefferson to distinguish coloring were based upon appellant's summer line, which was offered over a year before the appellees had registered their Articles of Partnership. Thus, there was absolutely no proof as to distinction in coloring based upon garments being currently offered by both parties. Mrs. Sachs did note, in answer to the District Court's query, that both the East and the West, since 1959, have tended to use flashier or brighter colors.

Whether or not certain colors have ever been associated with any California manufacturers at any particular time in history is irrelevant and immaterial in this cause for at least two cardinal reasons:

> **One**: Appellees failed to demonstrate that their own colors were distinguishable from those of appellant; and
>
> **Two**: Any suggested unusual quality about California colors was denied by the testimony of appellees' witness Mr. Morton J. Weishar, a May Co. buyer, who testified that the so-called "hot colors, the oranges, the yellows, the brighter tones," were not limited to California (RTR 475) but that the East had gone in for the same colors and started to pick up these colors at least four years ago (RTR 476).

It is to be noted that appellees were not in existence at the time the East picked up such colors. Concurring testimony by appellees' witness Miss Jefferson regarding colors used both in the East and the West is noteworthy:

> "Q. Can you tell by looking at the garment whether it was manufactured in California or elsewhere?
>
> A. Not exactly. They have certain characteristics, of course, of the brighter colors. You don't have so much in bright colors coming from the East as you do here. **But, of course, you couldn't tell exactly"** (R 281). (Emphasis ours.)

Consequently, appellees' own experts denied a color distinction and thus corroborated the import of Mrs. Sachs' testimony upon cross-examination concerning the actual lack of color distinction between the parties' dresses.

In the course of the trial the District Court took judicial notice of the transitory nature of dress colors and, inferentially, of the insubstantial basis for making a distinction thereon, in stating:

> "* * * I think that everyone here knows and anyone who would have anything to do with this case would know that colors are different each year. They come out with some dominant color, and how they ever settle on it, I don't know. But they do, and then they give old colors new names, and the whole thing is supposed to take on a new look each summer" (RTR 258).

In view of the foregoing, the appellant submits that the following finding of the District Court is without foundation:

> "The court is persuaded that the colors used by plaintiff are less brilliant than the defendants use, but that this feature is not sufficient alone to distinguish the respective lines. However, it is in fact an element which has been a characteristic worthy of note" (R 47).

3. Size.

Appellant's dresses in its PAUL SACHS line are offered in sizes 10 to 20 (RTR 148), and in its DON SACHS line in sizes 8 to 18 (RTR 217). Appellees' dresses are produced and sold in sizes 8 to 18, Exhibit O. Appellees' witness Miss Jefferson admitted that the so-called "young missy" and the "missy" (misses) dresses both comprehend sizes 10, 12, 14, 16, and 18 (RTR 288), and appellees' witness Mrs. Sachs testified to the same coincidence of sizes (RTR 419).

B. Similarity of Trade Channels.

In its Memorandum of Decision the District Court appeared to suggest that some distinction exists between the trade channels utilized by the parties for their dresses (R 48). A careful scrutiny of the said Memorandum and of the entire record does not reveal any fact whatever upon which such a distinction could rest. The District Court found, on an over abundance of proof, that the dresses of the parties are offered for retail sale in department stores and specialty shops (R 33, 37). This fact demonstrates that there is no distinction in trade channels. However, there are additional areas of coincidence with respect to the movement of the parties' dresses in commerce.

1. At Wholesale.

Both of the parties maintain their own sales force (RTR 224, 513) for directly contacting the trade, with the District Court noting the sales accomplishments in the State of California of appellant's salesman Mr. Eddie Silk (R 34). Both of the parties exhibit their dresses at "markets", such as, particularly, the one held five times annually in the City of Los Angeles, California, at the Biltmore Hotel, which is sponsored by the Pacific Coast Travelers Association—see Exhibits Y and Z (RTR 103), which fact was noted in the District Court's Memorandum of Decision (R 35, 38). Both parties maintain showrooms for exhibiting their garments to the trade (R 33, 38). Accordingly, the parties operate identically in selling their dresses on the wholesale level. Whether or not either of the parties might utilize additional avenues of approach to the trade is without moment, since, generally, the marketing methods of a concern are dictated at any one particular time by budgetary considerations.

2. To the Same Stores.

As established by the record, the dresses of both parties are sold to women through department stores and specialty shops. But, at the trial there was proof that both parties had sold their dresses to identical stores in California. Mr. Weishar testified for appellees that appellees' dresses had been purchased for resale by May Co. stores in the Los Angeles area, and sales of appellant's dresses to the same May Co. stores by appellant was established by invoices comprised in appellant's Exhibit 78 (RTR 260). Appellees sold dresses to the Style Shop in Salinas, California (RTR 545), while sales of dresses to that firm by appellant in the year 1960 were established by Exhibit 86 (RTR 260). Thus, without conscious, predetermined effort by appellant, the record showed sales to not just the same types of stores, but to the very same stores.

In this connection it is interesting to note that the record unequivocally established that the same store buyers customarily purchase misses dresses and young missy dresses. Appellees' witness Mr. Weishar testified that as a buyer for the May Co. his purchasing efforts encompass both misses and young missy dresses (RTR 449). Appellees' Exhibit GG, being an advertisement for appellees' dresses appearing in the Phoenix Gazette of March 1, 1962, indicated that these so-called young missy dresses of appellees were available at "Misses Dresses, Second Floor" (RTR 425). Appellees' mailing piece for its dresses,

Exhibit I, stated: "Att: Misses Dress Buyer." Mrs. Sachs, appellees' style coordinator, admitted that there were buyers who bought both the misses and the young missy dresses (RTR 420).

The offering for sale of the misses and young missy dresses of the parties in the same departments of stores, as evidenced by Appellees' Exhibit GG noted above, was corroborated by Appellant's witness Eddie Silk, who testified:

> "In most cases a misses dress will be in the same department. In other words, a young misses can go in and find a dress in the same department as you call an old misses" (RTR 188).

Also, appellees' witness Mr. Weishar testified that in the May Co., to whom both parties have sold their dresses, the misses dresses and the young missy dresses were sold in the same department (RTR 449).

3. For Sale to Same Retail Customers.

The fact that appellees' witness Mrs. Sachs could, in the estimation of plaintiff's expert witness Eddie Silk, be wearing a misses dress (RTR 158), which, in her estimation, was a "young missy dress" (RTR 374), should establish beyond doubt that the garments of the parties can be sold to the same individuals. Mrs. Sachs testified that the young missy could encompass an age bracket of from 19 to 40 (RTR 373); hence, such an age bracket, which comprehends youth as well as middle age, certainly includes ladies and misses styles. Appellees offered no evidence that misses dresses were only for those outside this age bracket. Since misses and young missy dresses are sold in the same departments, it is obvious that they are being offered to the same clientele. Appellees' witness Miss Jefferson testified that a thirty-year-old woman and a seventeen-year-old girl would buy the same dress (R. 295). There succeeded the following exchange:

"Q. (By Mr. Kalish) This does go a bit higher than 30, doesn't it, today?

A. And how" (RTR 295).

Thus, the testimony of Appellees' witnesses proved that the dresses of the parties did not appeal to different segments of the market.

4. Sold in Overlapping Price Range.

The appellees' dresses are sold at wholesale in a price range which extends from $6.75 to $14.75, Exhibits E, I, L, and N, having some dresses thus selling at $10.75, $12.75, and $14.75. Appellant's dresses are sold within a price range from $10.75 up to $39.75 (RTR 217), thus encompassing dresses wholesaling at $10.75, $12.75, and $14.75, as well as higher prices, Exhibits 64, 65, 67, 68. Consequently, within important parts of both of their lines appellant and appellees have identical wholesale prices. The fact that appellees may have a lower price level than appellant and that appellant may have a higher price level than appellees, is without significance. The law is well developed on this point. Foremost is **Brooks Bros. v. Brooks Clothing of California, Ltd.**, supra. Therein the court stated:

> "You cannot divide the clothing business into categories, according to the social group on which it may depend for patronage. It may well be that a purchaser of clothes chooses to go to one store, rather than to another, because it carries the type of clothes he likes, just as a person may go to a tailor who charges $135 to $150 for a suit of clothes, while another prefers to patronize one who charges $75. But, just as both tailors are in 'the tailoring business,' regardless of the price, so are both businesses who sell ready-made clothing in the clothing business. To use a phrase made famous by an American humorist, just as 'Pigs is pigs,' **'Clothes is clothes.'** They do not

cease to be such because they appeal to one social group rather than another. Nor do the persons engaged in selling them to one rather than another cease to be in the clothing business competitively. * * * Ours is an unstratified society with constant mobility of persons. Absent a 'caste' system, there can be no 'caste' in merchandising. As prospective customers, 'the Colonel's lady and Judy O'Grady' (or their male equivalents) 'are sisters' (or brothers) 'under the skin.' ''

In the case of **Chester Barrie, Ltd. v. Chester Laurie, Ltd.** (D. C. S. D. N. Y.—1960), 189 F. Supp. 98, 127 USPQ 255, the defendant's men's clothing was sold at a lower retail price than that of the plaintiff, but the court refused to give weight to such a distinction, stating:

''While defendant's garments presently are sold in retail price ranges substantially lower than those of plaintiff, it does not license defendants to **preempt the lower price ranges and foreclose plaintiff from changing its merchandising or pricing policies.** Additionally, changes in economic conditions may impel plaintiff to lower the price of its product and materially lessen the differential'' (Emphasis ours).

See also **Chips 'N Twigs, Inc. v. Blue Jeans Corp. et al.** (D. C. E. D. Pa.—1956), 146 F. Supp. 246, 111 USPQ 373, wherein the garments manufactured and sold by defendant retailed at a lower price than similar garments produced by plaintiff. However,. the court refused to recognize such a price differential as being a tool for avoiding confusion.

''An examination of the goods of the two manufacturers, the plaintiff and the defendant, which were produced at the hearing, clearly demonstrates that the plaintiff makes a far superior garment. Goods which are manufactured by Blue Jeans Corp. to be sold by the retailer for $6.98 can be sold by the plain-

> tiff only if they will bring the retail price of $13.98 and higher. Even the one witness produced by the defendant admitted that the garments manufactured by the plaintiff were of superior quality and workmanship. Clearly, then, if by the actions of a newcomer in the field in the use of a deceptively similar name, and by manufacturing and selling similar articles of inferior quality the newcomer can take advantage of good will built up by the plaintiff over a period of years, and so confuse the public that members thereof will believe they are purchasing plaintiff's goods, irreparable harm must result to the plaintiff directly in its business and to the good will built up at great expense over a long period of years.''

The District Court, although recognizing that price is another factor in determining relationship of the dresses of the parties, appeared to deny the significance of the price overlap as an element in the overall mosaic by making the following finding:

> ''The fact that the prices overlap did not establish that the respective lines sold in the same market. Neither does the fact that the defendants' garments are considered less expensive establish that they are in a different market.''

Nevertheless, the fact that appellant's price range may extend beyond that of appellees does not, in view of the well established precedents, provide any basis upon which a distinction between the goods of the parties can be made.

5. Trade Recognizes No Distinction.

If there were an actual distinction between the dresses of the parties, then one would expect appellees' salesman to make the most of such distinction in selling appellees' dresses. However, appellees' salesman categorized appellees' dresses as either ''misses dresses'', Exhibit 94 (RTR 424), or as ''inexpensive misses dresses'', Exhibit

93 (RTR 423). In these particular exhibits, which were directories issued by the Pacific Coast Travelers Association at the "markets" held five times annually at the Biltmore Hotel in Los Angeles, appellees' dresses were included in the same categories as misses dresses. Also pertinent is Appellees' Exhibit CC (RTR 103). John Sachs, the general partner of appellees, testified as follows:

> "Q. So far as you know, are the young missy dress manufacturers ordinarily and normally included in the same category in directories of markets as the misses manufacturers?
>
> A. Yes, sir" (RTR 519).

With the keen competition among dress manufacturers, one would expect any difference to be emphasized by a manufacturer in order to set his dresses apart from those of his competition. But the trade observes no distinction.

In view of the fact that there is no apparent recognition of such a classification as "young missy" in the aforesaid directories or in any other trade publications put in evidence by appellees, it is submitted that objective evidence does not support a trade recognition of real difference.

6. Co-existence Geographical Distribution.

a. California.

The continuous sale of appellant's dresses in the State of California for many years prior to the inception of appellees and through the present time is clearly established. Appellant's Exhibits 78 through 88, inclusive, constituted specimens of invoices relating to sales of its dresses in California for the period 1952 through 1961 (RTR 260). These invoices were selected for the purpose of merely indicating extent of sales throughout California, the continuity of such sales, and not the volume of sales (RTR 260). Observing appellant's invoice exhibit together with a box of invoices not placed in evidence, the District Court stated:

> "* * * obviously you must have shipped a lot of dresses [into California]" (RTR 262).

The District Court found that appellant had sold its dresses in California in an annual volume of at least $100,000 at wholesale during the ten years that appellant's representative Eddie Silk had handled its line, and that during such period of time he had sold appellant's dresses in at least seventy-five California cities, with an annual distribution of between sixty and seventy California cities (RTR 114-115), and during the aforesaid period Mr. Silk had sold appellant's dresses to "about 300" different accounts in the State of California (RTR 114). In certain of appellant's national advertisements in Vogue Magazine, Exhibits 26, 28, and 30 (RTR 95, 233), appellant gave "store credits" to stores in Sacramento, Glendale, and Los Angeles.

Appellees' partnership, which was not formed until late 1960, is a Los Angeles firm, having its principal place of business and showroom in downtown Los Angeles (RTR 515). That it has sold its dresses in the City of Los Angeles is evident from the testimony of its witnesses, Mr. Weishar of the May Co., and Miss Jefferson, who operates a specialty dress shop. John Sachs testified that his firm had sold its dresses to between 175 and 200 accounts in California and that about seventy-five per cent of its business, on a dollar-volume basis (although the actual volume was not given), was transacted with stores in the State of California (RTR 541).

b. Nation-wide.

The testimony of appellant's president, Mr. Joseph Abrams, demonstrated that plaintiff has sold its dresses throughout the entire United States since 1942. The national character of appellant's business is further evidenced by its consumer advertising in nationally distributed magazines, such as Vogue, Mademoiselle, and Charm magazines; and its advertisements in Vogue, Exhibits 25, 26, 27, 28, 29, 30, 32, 33, 34, show this character most convincingly. In these advertisements "store credits" are given to stores located in Texas, Indiana, Mississippi, Pennsylvania, Missouri, California, Tennessee, Florida, Colorado, Georgia, Nebraska, etc. Furthermore, appellant maintains showrooms in the cities of New York, New York; Dallas, Texas; and St. Louis, Missouri (R. 34). As shown by the testimony of both Mr. Eddie Silk and Mr. Joseph Abrams, their respective personal sales efforts on behalf of appellant constitute a remarkable geographical coverage. Appellees gave testimony that their dresses were sold in forty-one states (RTR 515). Accordingly, it is evident that the geographical areas of operations of the parties coincide.

C. Direct Competition Not Requisite for Relief.

In view of the foregoing, it is submitted that the dresses of the parties are, to all intents and purposes, merchandise of the same class and type, both as to physical characteristics and the manner in which the same are offered for sale. To modify the expression "**Clothes is clothes**" of the District Court in the **Brooks Bros.** case, supra (See quotation, page 23), one should certainly be able to say, without contradiction, that a woman's ready-to-wear dress is a woman's ready-to-wear dress.

The test is not whether the merchandise of the parties is physically identical, but whether or not the same are so related as to be capable of emanating from a single source of origin. This criterion is broader than that applied by the District Court, and is one which is in keeping with the realistic practices of the market place. This criterion is, furthermore, one which assures adequate protection to a trader's business. As the cases will show, it is not necessary that the merchandise of the parties be in immediate, direct competition, wherein a customer might purchase the product of one trader for that of another, in order for relief to be obtained. **Audio Fidelity, Inc. v. High Fidelity Recordings, Inc.**, supra. The law is not that narrow. In **Brooks Bros. v. Brooks Clothing of California, Ltd.**, supra, the court stated:

> "For this reason whatever may be the rule in other circuits, the rule declared by our Ninth Circuit Court of Appeals is that competition is not necessary * * *. Even if the goods be not in competition, the law protects a merchant in his interest 'in other goods, services or businesses which, in view of the designation used by the actor, are likely to be regarded by prospective purchasers as associated with the source identified by the trademark or tradename.' "

In **Academy of Motion Picture Arts and Sciences v. Benson** (Calif.—1940), 104 P. 2d 650, 46 USPQ 488, the court stated:

> "But we perceive no distinction which, as a matter of law, should be made because of the fact that the plaintiff and the defendant are engaged in non-competing businesses. In situations involving the use of proper surnames in non-competitive businesses it has been held that where confusion was shown as likely to result the relief should be accorded to the complaining party."

In **Fancee Free Mfg. Co. v. Fancy Free Fashions, Inc.** (D. C. S. D. N. Y.—1957), 148 F. Supp. 825, 112 USPQ 359, the plaintiff produced various articles of women's intimate wearing apparel, such as brassieres, girdles, foundation garments, etc., whereas defendant sold lounging wear, such as brunch coats, dusters, house coats, two-piece lounge suits, slacks and cover-alls, but did not manufacture or sell underwear or related merchandise. In determining that no distinction could be made between the merchandise of the parties, the court stated:

> "The issue as to whether the goods sold by the plaintiff and the goods sold by the defendant are related goods is an issue of fact. The evidence shows that articles of intimate wearing apparel as sold by the plaintiff are frequently sold in the same departments of stores which sell items of lounge wear as sold by the defendant. In some instances the same buyer for a department store will buy both underwear and lounge wear. Certainly it requires little knowledge of merchandising practice to understand that a woman purchaser or wholesale buyer who had bought 'Fancee Free' slips or pajamas, might well conclude that a lounge robe or brunch coat bearing a similar trademark might come from a similar source. **Though not in competition with each other, these items of feminine apparel are sufficiently related for there to be such a likelihood of confusion as to entitle plaintiff to protection of its trademark.**" (Emphasis ours.)

In this connection, see **Williamson-Dickie Mfg. Co. v. Davis Mfg. Co.**, supra, wherein it was stated:

> "* * * certainly the manufacturer of one kind of boys' clothing cannot escape a charge of infringement because the plaintiff is principally engaged in manufacturing another kind."

In **Youthform Co. v. R. H. Macy & Co., Inc.** (D. C. N. D. Ga.—1957), 153 F. Supp. 87, 114 USPQ 62, the plaintiff produced principally brassieres, while the defendant produced principally slips. However, such distinction was not sufficient to prevent the court from holding a likelihood of confusion by reason of the use of the respective trademarks on such goods. The court aptly noted:

> "As stated above, plaintiff and defendant are not competitors, as plaintiff primarily sells brassieres and defendant primarily sells slips, etc. However, as shown by many of the advertisements placed in evidence, both brassieres and slips show the female form

clad in both a brassiere and a slip, which connects the two together in the public mind. Furthermore, each garment is sold largely in the same stores, though frequently at different counters."

In **Barbizon Corp. v. Hollub** (N. Y. Sup. Ct.—1943), 41 N. Y. S. 2d 117, 57 USPQ 201, plaintiff used its trademark on women's underwear, whereas defendant used its trademark on cotton dresses. In enjoining the actions of the defendant, the court stated:

> "The products of the plaintiffs and defendants are frequently sold and distributed in adjacent sections of stores. **When so sold, a common origin might easily be assumed by the public.**" (Emphasis ours.)

In **Lou Schneider, Inc. v. Carl Gutman & Co.** (D. C. S. D. N. Y.—1946), 69 F. Supp. 392, 70 USPQ 490, plaintiff used its trademark on ladies' and young misses' coats and suits, whereas defendant utilized its mark on sweaters; women's knitwear; ladies', juniors', and misses' polo shirts, blouses, bed jackets, and suits. The court, in denying defendant's contention that the distinction in merchandise would avoid confusion, stated:

> "Here the two classes of goods are worn by the same people, are sold in the same stores, advertised in the same publications, and sold to the same class of purchasers. Clearly, there is obvious possibility of confusion. They are also included in the same classification by the Patent Office."

In **Swarthmore Classics, Inc. v. Swarthmore Junior** (D. C. S. D. N. Y.—1959), 81 F. Supp. 917, 80 USPQ 159, the plaintiff dealt in women's blouses, while defendant sold women's suits and dresses. The defendant did not sell blouses, nor did plaintiff sell women's suits and dresses. The court stated:

> "Having a trademark established by consistent use and advertising, defendants are entitled to prevent plaintiff from using a confusingly similar mark or

> name in connection with **the same or related goods in the same markets.** I have found that while there is no proof that any member of the public has been misled into the belief that plaintiff's blouses originate at the same source as defendants' dresses, it is probable that such a false belief will be generated." (Emphasis ours.)

The court therein did find that the parties sold in the same geographical areas; that their wares were bought by common retail purchasers and to some extent by common wholesale purchasers; that their wares were marketed through the same kind of retail channels and sometimes in the same stores; and that the function of plaintiff's and defendant's goods were closely related. The extreme pertinency of this case is apparent.

In another case germane to this issue, **Kay Dunhill, Inc. v. Dunhill Fabrics, Inc.** (D. C. S. D. N. Y.—1942), 44 F. Supp. 922, 53 USPQ 231, the plaintiff was engaged only in the business of producing and selling dresses for ladies, misses, and juniors, while the defendant was engaged in the production and sale of fabrics. But defendant was enjoined from utilizing its mark in conjunction with its fabrics from which dresses were made. In **Carlisle Shoe Company v. Societe Anonyme: Roger Fare & Cie** (CCPA—1960), 278 F. 2d 519, 126 USPQ 54, the defendant used its trademark upon gloves, whereas the plaintiff utilized its mark on ladies' shoes. The court, in denying any avoidance of confusion by distinction of merchandise, stated:

> "However, it was the examiner's position that ladies' shoes and gloves are closely related, generally sold in the same stores, and frequently purchased and used together as accessories to complement a particular costume. We agree with the examiner that the goods are so related that their sale by different parties under substantially similar marks would likely lead purchasers to suppose that they emanated from the same source."

In **General Shoe Corporation v. Hollywood-Maxwell Co.** (CCPA—1960), 277 F. 2d 169, 125 USPQ 443, the court affirmed the denial of registration of appellant's trademark for use on shoes and hosiery in view of the prior registration of the same mark by defendant on brassieres. In support of its position, the court quoted the following passage from a prior decision:

> "* * * Both are within the general class of wearing apparel. They are bought by the same class of people; it is a matter of common knowledge that both shoes and clothes are sold in country stores throughout the nation, and appellant's counsel admits that a similar sales policy exists to some extent in our cities, although he states, as no doubt the fact is, that in cities, generally speaking, clothing and shoes are sold in separate stores."

The following statement by the court in this same case demonstrates marked recognition of present-day commercial practices:

> "Again, if it were really a matter of common knowledge that shoe manufacturers do not ordinarily manufacture other items of apparel and vice versa, there would be no problem. However, there is no evidence to support that statement, and we hardly think it can be accepted as a fact. Indeed, in view of the current wave of industrial mergers and resultant diversification, it is difficult to know with certainty just who is manufacturing what."

The New York State courts have also recognized the same standard in cases of this type. In **Sullivan v. Ed Sullivan Radio & T. V., Inc.** (N. Y. App. Div.—1956), 1 App. Div. 2d 609, 110 USPQ 106, the court stated:

> "It is quite clear that, at the present time at least, there is no direct competition between appellant and respondent. However, both operate in the same general field and this court has consistently held that it

is not essential for parties to be in competition with each other in order to sustain an injunction * * *."

Also, of interest is the recent case of **Drexel Enterprises, Inc. v. Colby** (D. C. S. D. Calif.—1963), Docket No. 1623-61-Y (138 USPQ 1), wherein the Court held that the louver-shutters, doors, room dividers and screens were so closely related to the furniture of plaintiff that the use by defendant of the same trademark as the plaintiff constituted trademark infringement and unfair competition. See also **Harvey Machine Co., Inc. et al. v. Harvey Aluminum Corporation** (N. Y. S.—1957), 9 Misc. 2d 1078, 113 USPQ 437, and **National Design Center, Inc. v. 53rd Street Design Center, Inc.** (N. Y. S.—1960), 24 Misc. 2d 545, 203 N. Y. S. 2d 517, 125 USPQ 596. In **Lady Esther, Ltd. v. Flanzbaum** (D. C. D. R. I.—1942), 44 F. Supp. 666, 54 USPQ 25, the court held that defendant's use of "Lady Esther" in connection with ladies' shoes and stockings unfairly competed with plaintiff's use of "Lady Esther" on face powder, face creams, and the like. Therein the court quoted from a pertinent precedent:

> " 'The normal potential expansion of the plaintiff's business may be forestalled. * * * It may be tarnished by the use of his mark upon an inferior product * * *. A false impression of a trade connection between the parties may be created, possibly subjecting the plaintiff to liability or to the embarrassments of litigation, or causing injury to his credit and financial standing.' "

In view of the foregoing, it is not necessary that the goods of the parties be identical, and in direct competition, for an aggrieved party to prevail. The law of unfair competition and trademark infringement is not so limited. The sole standard is whether the goods are so related as to be capable of emanating from a single source of origin. In the present case it is submitted that the dresses of the parties are so related.

D. Expansion Test for Relationship of Goods.

Another facet of the "source of origin" concept often considered by courts in determining the relationship of the goods of the parties is what might be called the "expansion test", namely, whether the goods of a defendant are of such character that one would expect a plaintiff, in view of its current operations, to normally expand into the handling of such goods. This concept is well expressed in **Williamson-Dickie Mfg. Co. v. Davis Mfg. Co.**, supra, wherein the court stated:

> "A trademark owner will be protected in a field so closely allied to his business that he may reasonably be expected to enter into it."

In the case of **Richard Hudnut v. Du Barry of Hollywood, Inc.** (D. C. S. D. Calif.—1960), Docket No. 1345-59-MC, 127 USPQ 486, 50 T. M. Rep. 1219, the District Court recognized that plaintiff, although a manufacturer of toilet goods and cosmetics, was to be protected as well "upon such other goods as might naturally be expected to come from the plaintiff." See also **Brooks Bros. v. Brooks Clothing of California, Ltd.**, supra, and **Del Monte Special Food Company v. California Packing Corporation** (CCA 9—1929), 34 F. 2d 724, 3 USPQ 15. In **L. S. Starrett Company v. Aaron Machinery Co., Inc.** (D. C. E. N. Y.—1958), 160 F. Supp. 805, 117 USPQ 178, the court stated:

> "If the product on which the trademark is being used by another is fairly within the normal field of expansion of the registrant's business, the latter is entitled to relief."

In **Henry Muhs Co. v. Farm Craft Foods, Inc.** (D. C. E. D. N. Y.—1941), 37 F. Supp. 1013, 49 USPQ 162, the court stated:

> "The modern doctrine is certainly to grant to one who has established a trademark and good will in connection therewith, the use thereof in any reasonable extension of its business."

Appellant submits that the so-called "young missy" dresses of appellees if they are distinguishable from appellant's dresses, fall within a reasonable and logical extension of appellant's business. The District Court, in its Memorandum, made the following pertinent statement:

> "When a manufacturer seeks to vary its line by appealing to women of other specifications than those catered to in an established line, it customarily gives the line a new name, as did plaintiff, when it established the 'Don Sachs Original' line to capitalize on the good will established by the original 'Paul Sachs Original' line."

Thus the District Court recognized that a dress manufacturer will not necessarily remain steadfast to garments of a single type but will add new lines, just as appellant added the "petite" line to its "misses" line. Therefore, for appellant to extend its dress business to encompass the so-called "young missy" dresses is logical, particularly when one notes that the young missy dresses would be sold to the same store buyers who buy misses and petite dresses and that they would be sold in the same store departments. A manufacturer such as appellant would most easily, and with minimum expense, enter into the production and sale of such a line if, arguendo, such a line would be distinct. One is not considering here the possibility of expansion into the manufacture of shoes, hats, gloves and the like, but merely the manufacture of a ready-to-wear dress by an established, recognized ready-to-wear dress manufacturer. The District Court, in holding that the dresses of the parties are not identical, sought thereby to create a base for further finding that appellees could "carve out an area of distinction." It is submitted that such a holding would condone the interposition of appellees into the path of expected expansion of appellant and thereby forestall the natural growth and development of appellant's business along the path which it has heretofore followed. Appellant is entitled to develop its business and to add such lines as it may, just as it added the DON SACHS line, without being circumscribed by appellees' operations. It is implicit in the District Court's decision that if the court had found that appellant did produce and sell a garment which the court considered a young missy dress, the court would have found in favor of appellant. Hence, if appellant were to expand its business into young missy dresses, it would then, in view of this holding, violate rights of appellees. When viewed from the standpoint of what might be determined the "expansion test," it is obvious that the dresses produced by appellees are within the field of the normal expansion of appellant, assuming that they are not already, and have not always been, in appellant's operations.

E. Patent Office Classification.

The Court will undoubtedly take judicial notice of the fact that the Patent Office has developed a classification system for merchandise so that trademarks are registered within the particular class for the identified merchandise. All articles of wearing apparel are comprehended in Class 39, Clothing. Accordingly, appellant's registrations for its trademarks PAUL SACHS Original and DON SACHS, Exhibits 1 and 2, are registered in Class 39, as is evident from the face of the certificates. In the former registration appellant's merchandise is described as "Street dresses and suits of silk, wool, rayon and cotton, and combinations thereof," whereas the merchandise in the latter registration is merely described as "Ladies' and misses' dresses." Obviously, the dresses of appellees would fall in the same class in the United States Patent Office. This fact, although in itself not fully decisive, does corroborate the objective recognition of the substantial identity of the garments involved in this proceeding.

In passing it should be noted that neither of appellant's registrations contain any statements with respect to the description of the goods which would serve to limit the same to particular styles, colors, patterns, sizes, or prices. As stated, the merchandise is described, in the one case, merely as "Street dresses," and in the other case, "Dresses." The District Court, by seeking to differentiate between the dresses of appellees and those of appellant upon the grounds of style, color, price, and the like, is circumscribing the scope of appellant's registrations in a most damaging manner, limiting the dresses to certain styling, colors, etc., but which the District Court did not define. The holding of the District Court in this regard does not take into account the ever-changing character of styles but assumes a permanent, static condition, which does not conform with reality, and which, in effect, would alter the protection provided appellant's trademarks by statutory law.

III.

THE TRADEMARKS OF THE PARTIES.

A. Consideration of Dominant Portions of Trademarks.

It is evident from its Memorandum of Decision that the District Court viewed appellant's trademarks as "Paul Sachs Original" and "Don Sachs Original," and that of appellees as "Sachs of California"; and upon such basis considered the trademarks as a whole, although the District Court stated: "Dissection is explanatory of a conclusion derived from the whole mark" (R 50). It is apparent that the District Court failed to ascribe proper weight to those portions of the marks of the parties which serve, to identify the respective goods, and was unduly influenced by words which are descriptive and incapable of trademark significance. Before considering the anatomy of the marks of the parties, it is well to recognize that although courts have indicated that trademarks should be considered in their entireties such a proposition has not prevented the same courts from noting the dominant or major portions of the marks involved and determining confusing similarity from a comparison of such portions. Thus, in the case of **Saxlehner v. Eisner & Mendelson Company** (Sup. Ct., 1900), 179 U. S. 19, 45 L. Ed. 60, 21 S. Ct. 7, it was stated:

> "One does not have to make a copy of another's entire trademark in order to infringe it, if what he does copy is enough to cause confusion."

This same view was expressed in a case decided by this Court, **Mershon Company v. Pachmayr** (CCA 9—1955), 220 F. 2d 879, 105 USPQ 4. A similar statement was made by the court in the case of **Lou Schneider, Inc. v. Carl Gutman & Co.**, supra:

> "It is not necessary to constitute an infringement that every word of a trademark should be appropriated. It is sufficient that enough be taken to deceive the public."

Title 15, United States Code, Sec. 1114 (1), as indicated above (page 12), does not require an exact and entire copying of a trademark in order to constitute infringement, as it provides that a "colorable imitation" may be an infringement:

> "Colorable imitation of part of a valid mark of another constitutes infringement where, as here, '**the part * * * taken identifies the owner's product without the rest.**' " **Chester Barrie, Ltd. v. Chester Laurie, Ltd.**, supra.

Note also the following pertinent statement from Callmann, **Unfair Competition and Trademarks**, 2nd Edition; Callahan & Company, 1950:

> "The judge, of course, must look at the mark as a whole, **but** that does not deny him the right to analyze **its different features so that he may properly consider the characteristics of the mark. Although words are to be considered** in their entirety, that touchstone does **not** require that equal significance must, in all cases,

> attach to every part of a mark; **such a holding could result in the destruction of valuable trademarks, for a defendant could invoke the simple expedient of adding descriptive words to its mark.** If one word or feature of a composite mark dominates all others, that should be accorded greater force and effect than the other parts of the mark * * *." (Emphasis ours.)

Most apt in this regard is the case of **Brooks Bros. v. Brooks Clothing of California, Ltd.**, supra, wherein the court, in holding the defendant's name to constitute unfair competition in view of plaintiff's name, stated:

> "Consequently, the courts, in both trademark and unfair competition cases, have held that where the **dominant portion** of a trademark, trade name or business has become identified in the mind of the public with the first user, he will be protected in the use of the name, even against a newcomer having the same surname." (Emphasis ours.)

It will thus be noted that the court in that case considered only the word "Brooks" in each of the parties' names and hence was not influenced by the accompanying verbiage. Also appropriate is another case decided by this Court, **Safeway Stores v. Dunnell** (CCA 9—1949), 172 F. 2d 649, 80 USPQ 115, wherein the use of the term "Safe Way" upon toilet seat covers was held to be confusingly similar to appellant's trade name "Safeway Stores, Inc.," on the ground that the term "Safe Way" constituted a substantial appropriation of the appellant's corporate name:

> "We regard Dunnell's use of the words 'Safe Way', whether with or without the hyphen, to be a similar appropriation of the word 'Safeway', a part of Stores' corporate name 'Safeway Stores, Inc.' "

Another interesting case is **Swarthmore Classics, Inc. v. Swarthmore Junior,** supra, wherein the court, despite any distinction between the word "Classics" and the word "Junior," considered the marks to be confusingly similar in view of the word "Swarthmore." As discussed above, the merchandise of the parties was not identical. A further very pertinent case is **Pikle-Rite Co., Inc. v. Chicago Pickle Co., Inc.** (D. C. N. D. Ill.—1959), 171 F. Supp. 671, 121 USPQ 128, wherein the trademark "Pol-Pak" was held to infringe the trademark "Polka" as used upon pickles. The court stated:

> "To constitute infringement, it is not necessary that the defendant appropriate the whole of plaintiff's mark, and the imitation need only be slight if it attaches to the **salient feature** of plaintiff's mark." (Emphasis ours.)

In that case the court found that the salient part of defendant's brand name, namely "Pol", constituted the dominant portion of plaintiff's trademark. Also apt is the case of **Kay Dunhill, Inc. v. Dunhill Fabrics, Inc.**, supra, wherein the use of "Dunhill" was held to unfairly compete with and constitute an infringement of "Kay Dunhill", the former being used on fabrics and the latter on dresses.

Another guide in considering the dominant portions of trademarks is the fact that the courts have consistently recognized that descriptive words or disclaimed words have no trademark significance, so that the remaining portion of the mark is the dominant portion. In **Hygienic Products Co. v. Huntington Laboratories, Inc.** (CCPA—1943), 139 F. 2d 508, 60 USPQ 205, the court held the trademarks "Toilet-San" and "Sani-Flush" to be confusingly similar. The court considered the word "Toilet" to be descriptive as used in the appellant's mark and hence having no trademark significance, and therefore compared the dominant portions of the marks, namely, "San" and "Sani". The court cited as an authority the case of **Saxlehner v. Eisner & Mendelson Company**, supra. An earlier, consistent holding is found in the case of **American Brewing Company, Inc. v. Delatour Beverage**

Corporation (CCPA—1938), 100 F. 2d 253, 40 USPQ 173. In that case the court noted a statement made in an earlier case which is most apt:

> "If all that a newcomer in a field need do in order to avoid the charge of confusing similarity is to select a word descriptive of his goods and combine it with a word which is the dominant feature of a registered trademark so that the borrowed word becomes the dominant feature of his mark, the registered trademark, made valuable and outstanding by extensive advertising and use, soon becomes of little value and, of course, each of the subsequent imitating trademarks (and there would be many) is of value only to the extent that its users are trading on the good will of the owner of the original registered mark [Bon Ami Co. v. McKesson & Robbins, Inc. (CCPA—1938), 93 F. 2d 915, 36 USPQ 260]."

As will be developed hereinbelow, there could be no more appropriate statement which succinctly sets forth the situation in this cause.

In **Bellbrook Dairies, Inc. v. Hawthorn-Mellody Farms Dairy, Inc.** (CCPA—1958), 253 F. 2d 431, 117 USPQ 213, the court, in recognizing that the portion "Vita" of appellee's registered trademark "Vita-Slim" was disclaimed, stated:

> "It seems evident, therefore, that 'Vita' cannot properly be regarded as the principal or dominant part of appellee's mark. * * * In our opinion 'Slim' seems the dominant part of appellee's mark 'Vita-Slim' and the concurrent use of these two marks on identical goods would be likely to lead to confusion in trade."

A more recent pertinent case is **Elizabeth Kent Cosmetics, Inc. v. G. B. Kent & Sons, Ltd.** (CCPA—1962), 309 F. 2d 775, 135 USPQ 327. Therein, the applicant utilized "Elizabeth Kent" on various cosmetic preparations, whereas the registrant used the trademark "Kent" on brushes. In holding the marks to be confusingly similar, the court sustained the viewpoint of the Board of Appeals, as follows:

> "The term 'KENT' is the sole feature of one of G. B. Kent's registrations and the dominant feature of the other, and considering that this term likewise constitutes an essential, if not the most distinctive, feature of applicant's mark [Elizabeth Kent], it is concluded that there is at least a reasonable likelihood of confusion in trade."

Of certainly undoubted interest to this Court is the case of **Wohl Shoe Co. v. Elder** (Com. Pats.—1951), 90 USPQ 144, which was an opposition proceeding in the Patent Office. The opposer's marks were "Connie" and "Connie Chic Creations" as used on shoes, while the applicant's mark was "ANOTHER Miss Connie Original" as used on women's and children's pajamas, slips, housecoats, brassieres, etc. In deeming the marks to be confusingly similar, the Commissioner noted the applicant's argument that marks are to be considered in their entireties, but held that when marks are so considered, every part of the marks is not necessarily of equal importance or need be given equal weight.

The Commissioner stated:

> "* * * it being well settled that, where, as here, a conspicuous and essential feature of the applicant's mark is the same as the opposer's mark, **the inclusion of additional words or features having no trademark significance is not sufficient to differentiate them.**"

Therefore, the question as to confusing similarity of the marks of the parties upon their respective merchandise should be considered in accordance with the standards and criteria set forth by the foregoing precedents.

Another recent case most apt is **Radiator Specialty Company v. Ladd, Comr. Pats.** (D. C. Dist. Col. 1963), 138 USPQ 284, wherein the Court held the trademarks "Motor-Medic" and "Auto Medic" to be confusingly similar upon the ground that the words "Auto" and "Motor" have very little trademark significance as applied to motor fuel additives and that:

> "The most significant and prominent phase of both of the above-mentioned marks is the word 'Medic', and it would be very likely that prospective purchasers would be more likely to remember the prominent feature as indicating origin of the goods."

Additionally, the Court will appreciate that a side-by-side comparison of the marks of the parties is not a proper standard. Prospective purchasers are not always afforded the opportunity of making such comparisons. **Pikle-Rite Co., Inc. v. Chicago Pickle Co., Inc.**, supra; **G. D. Searle & Co. v. Chas. Pfizer & Co., Inc.**, supra; **Standard Oil Company v. Standard Oil Company** (CCA 10—1958), 252 F. 2d 65, 116 USPQ 76; **Harold T. Ritchie, Inc. v. Chesebrough-Ponds** (CCA 2—1960), 281 F. 2d 755, 126 USPQ 310; **Radiator Specialty Company v. Ladd, Comr. Pats.**, supra.

B. Appellant's Trademarks.

1. The word "Original".

The District Court found that the word "Original" constituted an element of each of appellant's trademarks, as "Paul Sachs Original" and "Don Sachs Original" (R 36, 37). Thus, the District Court considered the word "Original" to be an inseparable, vital component of each of appellant's trademarks.

The District Court failed to specifically find that the word "Original" as so used with PAUL SACHS and DON SACHS has invariably been in a different style or manner of presentation from that of the accompanying name and has been physically separated from such marks, as evidenced, for example, by appellant's labels, Exhibits 3, 4, 5, and 6. From a study of the District Court's Memorandum of Decision, it would seem that the word "Original" was presented in each trademark with an emphasis and importance equal to the other words therein, which inference is contrary to fact. Interestingly enough, the District Court noted, with respect to the word "Original" as set forth in Certificate of Registration No. 502,925 for the trademark PAUL SACHS Original: "By disclaimer the word was not eliminated from the trademark (R 36)."

Surely this Court will take judicial notice that the word "Original" or "Originals" is widely used in the women's fashion field, and especially in the clothing field. A cursory examination of Appellees' Exhibits BB, CC, H, J, KK, LL (RTR 103, 410), as well as the Pacific Coast Travelers Association's Market Week booklets Exhibits Y, Z and AA (RTR 103), reveals the widespread use of the word "Original" or "Originals" in the women's wearing apparel field. It is clear that there can be no distinctiveness inherent in such a term when so used, just as there could be trademark significance in such descriptive, widely used words as "Modes", "Creations", "Classics", "Fashions", and the like.

Although not bound, it is believed that this Court will note with interest rulings of the United States Patent Office with respect to trademarks, in view of the acknowledged expertise of the Patent Office in such matters. Thus, the Court's attention is directed to **Ex Parte Julette Originals** (Com'r Pats—1947), 74 USPQ 211, wherein the application to register "Julette Originals" as used on dresses was rejected in view of the prior registration of "Juliette" as used on men's, women's and children's sleeping garments and underwear. The Commissioner stated:

> "* * * the word '**Originals**' when used in connection with dresses has little, if any trademark significance, and that applicant's proposed trademark is dominated by the word 'Julette'."

Of interest is **Le Roi Hosiery Co., Inc. v. Champion** (Com'r Pats—1957), 114 USPQ 135, wherein the trademark "La Roy Originals" as used on ladies' shoes was considered confusingly similar to the trademark "Le Roi" as used on hosiery. The Commissioner stated:

> "So far as we are here concerned, La Roy and Le Roi are the same in sound and in commercial impression; and the word **'Originals' adds nothing** by which they would be likely to be distinguished." (Emphasis ours.)

It is submitted that the word "Original" or "Originals" is obviously used in lieu of the more commonplace word "dresses," or, as in the footwear field, in lieu of the word "footwear."

The lack of distinctiveness in the word was brought out by the testimony of witnesses for both parties, as note the following testimony of appellees' witness Miss Jefferson:

> "Q. You testified a little while ago to a very remarkable familiarity with names of firms in the wearing apparel field. I would like to draw upon your knowledge and ask you whether or not you ever heard of the use of the word 'Originals' in the corporate name of any firm in the dress field.
>
> A. Yes, of course.
>
> Q. Would you say it was rather widely used throughout your 32 years' experience?
>
> A. Quite a bit. Quite a bit" (RTR 294).

Appellant's expert witness Eddie Silk testified as follows with respect to the use of the word "Originals":

> "A. It is on everything. I mean this is a very loosely used word in our business, in our trade. All throughout our market week book you have the word 'Originals' after names, just to dress up the label.
>
> Q. Does it have any significance?
>
> A. It has lost its significance because of the way it is used" (RTR 102).

Interestingly enough, both Mr. John Sachs and his wife, Mrs. Hope Sachs, testified that they had once worked for a firm known as Lou-Ette Originals (RTR 380), so that they obviously are equally aware of the widespread, common use of the designation "Originals" in the dress field. Appellant's witness Eddie Silk, in his ill-starred business venture, likewise demonstrated the common use of this term, inasmuch as he had incorporated same in the label, Exhibit 89 (RTR 73), which he affixed to his merchandise. Therefore, from the standpoint of trade practice alone, the term "Original" cannot be considered as adding anything to either of appellant's trademarks.

Furthermore, the District Court, in recognizing the disclaimer in Registration No. 502,925, Exhibit 1, failed to appreciate the significance of such disclaimer.

In **Wohl Shoe Co. v. Elder**, supra, the trademark "Another Miss Connie Original," with "Original" being disclaimed, was considered confusingly similar to "Connie." In referring to the examiner's opinion, in which the Commissioner concurred, he stated:

> "It was his [the examiner's] view that the words 'Another' and 'Original' in the applicant's mark are obviously lacking in trademark significance, the word 'Original' being disclaimed and also having a well-defined meaning with regard to the applicant's garments * * *."

The disclaimed portions of registered trademarks can never be considered the dominant portion of such marks. See also **Bellbrook Dairies, Inc. v. Hawthorn-Mellody Farms Dairy, Inc.**, supra; **American Brewing Company, Inc. v. Delatour Beverage Corporation**, supra. Furthermore, the lack of importance of such word to appellant and its non-reliance thereon for purposes of distinction is evidenced by its failure to use such word in either its trademark or its corporate name on various occasions; for example, see Exhibits 10, 11, 12, 13; 25 through 30, inclusive; 32, 33, 34, 53a to 53f, inclusive. The omission of the word "Original" from Certificate of Registration No. 708,120, Exhibit 2, even though the specimens of the labels submitted to the Patent Office, Exhibit 5, for such registration, carried the word "Originals," shows that the Patent Office had ceased to regard such portions as forming a part of the mark and therefore granted the registration for the term DON SACHS alone, even though appellant has always used the label, Exhibit 2, for its DON SACHS mark.

In the case of **Jays, Inc. v. Jay-Originals, Inc.** (Mass.—1947), 75 N. E. 2d 514, 76 USPQ 238, the name "Jay-Originals, Inc." as used in the business for manufacturing women's sportswear was considered confusingly similar to the plaintiff's name "Jays" for its single retail store. In arriving at its holding the court found that the term "Jay" was an appropriation of an essential part of the plaintiff's name, and thus gave no weight to the word "Originals" as providing a basis for distinguishing the marks.

In its Memorandum of Decision the District Court in the present case adopted a position which is completely contrary to the above discussed precedents, as well as to the realities of the wearing apparel industry, and has indicated that the word "Original" is of significance and serves the purpose of a trademark in appellant's mark (R 48). Therefore, the District Court has ascribed significance and distinctiveness to a commonplace, descriptive word of which is altogether incapable.

2. SACHS the Dominant Portion of Appellant's Trademark.

The District Court found as a fact that the word "Sachs" in appellant's trademarks had not been given any emphasis or dominance over the Christian portion of the marks, namely, "Paul" and "Don", as both names had been set forth in the same style and letter as the surname (R 36). Thus, the District Court laid stress upon the manner of presentation of the marks for the seeming purpose of holding that SACHS was not dominant over Paul or Don. From the discussion hereinabove presented, the word "Original" as used by appellant is of no moment trademark-wise, since it is descriptive. However, utilizing the District Court's criterion based on manner of presentation, it would seem that the District Court would have, to have been consistent, considering the word "Original" as having no or at least minor significance in view of the fact that the word was at all times used in a completely subordinance manner to the trademarks PAUL SACHS and DON SACHS and that it appeared in a different and smaller style of lettering, for example see Exhibits 1, 2, 3, 4, 5, 6, as well as all advertisement exhibits. Hence, the District Court should have at least found PAUL SACHS and DON SACHS to be the dominant portions of appellant's trademark if only from an appearance standpoint. Appellant contends that if the District Court had so properly concluded, a holding of confusing similarity would have ensued. In view of certain of the above-discussed precedents, as wherein "Dunhill" was held confusingly similar to "Kay Dunhill (**Kay Dunhill, Inc. v. Dunhill Fabrics, Inc.**, supra); and "Elizabeth Kent" and "Kent" confusingly similar (**Elizabeth Kent Cosmetics, Inc. v. G. B. Kent & Sons, Ltd.**, supra), it is evident that the marks of the parties are confusingly similar.

Appellant urges that the word "SACHS" is the true dominant, salient feature of its trademarks, since such name is common to both of its marks and, thus, is the one which establishes the relationship there between. As appellant's advertisements, Exhibits 25 to 30, inclusive, 32 to 34, inclusive, reveal, it was appellant's aim to develop a family of related trademarks, and, thus, the common surname Sachs was the element to evidence this underlying relationship. The said Exhibits carried the notice "America's Famous Fashion Family."

In addition to this portion, namely, SACHS, being common to both of appellant's trademarks, there is the admitted penchant of the American public for abbreviating names and for resorting to the last name in two-name trademarks, a characteristic which is aptly noted in **Brooks Bros. v. Brooks Clothing of California, Ltd.**, supra:

> "In considering a case like this, we must take into consideration the habits of the American buying public. Just as Americans are prone to abbreviate names, and Young Men's Christian Association became, first the Y. M. C. A., and later—especially among the soldiers—the Y, so do they abbreviate longer business names. And Sears, Roebuck & Co. becomes Sears, J. W. Robinson Co. becomes Robinson's, R. H. Macy & Co. becomes Macy's, John Wanamaker becomes Wanamaker's, Tiffany & Co. becomes Tiffany's, and John B. Stetson becomes Stetson's. More, if a person has achieved successful manufacturing or merchandising in a particular field, the average American, who constitutes our buying public, will identify the name with the product. So Tiffany spells jewelry, Waterman, fountain pens, Ford and Chrysler, automobiles, Hoover, cleaners, Waltham and Elgin, watches, Standard, oil products, Stetson, hats."

Callmann, in **Unfair Competition and Trademarks**, supra, also most lucidly expressed the same thought:

> "An individual's first name is even less effective than his family name to create distinction or prevent deception. This is true not only when the family name is as well-sounding as 'Portuendo,' or as famous as 'Coty,' 'Stetson,' 'Rademaker,' or 'Baker,' but in all cases where two compete under the same family name. This is even stronger with respect to the use of initials as a distinguishing feature" (pages 1488-1489).

Accordingly, the reasonable conclusion is that appellant's trademarks are, in truth, PAUL SACHS and DON SACHS, since such distinguish appellant's dresses, the word "Original" having no significance and being wholly descriptive as used in conjunction with dresses; and, further, that the word "SACHS" is decidedly the dominant portion of appellant's marks. Dominance is thus not determined altogether by the manner of presentation, but rather in light of common customs and practices. Interestingly enough, in the **Wohl Shoe Co. v. Elder** case, supra, the dominantly presented word in the applicant's mark, namely, "ANOTHER", was deemed to have no trademark significance.

At this juncture note should be made of certain statements in the Memorandum of Decision which might suggest that the District Court felt that the word "SACHS" could not be the dominant portion. After noting appellant's argument that "Original" could have no trademark significance, the District Court stated:

> "This bolstered plaintiff's argument that 'Sachs' was the dominant feature of the mark. In passing, it should be noted that this is a surname such as would not alone be accepted for registration."

It would thus seem that the District Court considered "SACHS" as being unregistrable and, ergo, without trademark significance. It is believed that the District Court observed only Section 1052 (e) (3) of Title 15, United States Code, which states that a name which is "primarily merely a surname" is not registrable, and failed to note the provisions of 15 U. S. C. 1052 (f), which provides that nothing in Section 1052 (e) will prevent registration of a mark which has become distinctive of the applicant's goods in commerce. Thus, surnames which have become distinctive of a party's goods are registrable in the United States Patent Office. An interesting facet of this situation is that appellant's Registration No. 502,925, Exhibit 1, was granted under the provisions of the aforesaid 15 U. S. C., Section 1052 (f), when the Patent Office, in the early days of the effectiveness of the present Trade Mark Act, labored under the impression that marks which comprised both a christian name and a surname were considered "primarily merely a surname." Therefore, if the District Court meant by its statements to suggest that appellant needed the word "Original" to add trademark significance to the name "Sachs," such was erroneous and contrary to facts and law.

C. Appellees' Trademark.

1. "SACHS" Dominant Portion of Appellees' Trademark.

From a study of the Memorandum of Decision one would assume that in the appellees' trademark the expression "of California" was given an emphasis equal to that given the name "SACHS." The manner of presenting this phrase in the Memorandum, as well as the omission of any discussion concerning the presentation of same (as contradistinguished from the discussion of the manner of presenting appellant's marks) would conduce to this viewpoint. However, such is not valid, since the appellees have unfailingly presented the word "SACHS" in what might be considered overpowering relation to the expression "of California." Reference is made to the appellees' label and hang tag, Exhibits A and B, as well as Exhibits C, D, E, F, G, H, and K, constituting order forms, post cards, calling cards, and advertisements, which show the arresting predominance of the word "SACHS." It will thus be seen that the term "of California" is presented in a wholly subordinate manner to the word "SACHS" and is so subordinated as to be in some instances almost illegible. The letters in the word "SACHS" are at least five times the size of the letters in the phrase "of California," with the letters "S" and "H" being substantially between seven and eight times the size of the letters in the said geographical phrase. From the standpoint of manner of presentation, it is evident that appellees ascribed dominance to the name SACHS and subjectively placed their reliance on said word to identify their merchandise. In Appellees' Exhibit J it may be noted that the name SACHS is presented on the topmost line without accompaniment by the expression "of California." Pertinent is the following statement in Callmann, **Unfair Competition and Trademarks**, supra, at page 1438:

> "The dominant feature of a trademark would seem to be that which is most noticeable and most unavoidably attracts the attention of the public."

If appellees intended, regardless of how mistakenly, for the expression "of California" to distinguish their dresses, they would certainly have presented the phrase in a predominant manner.

For reasons to be discussed at length hereinbelow, the expression "of California" is inherently incapable of distinguishing appellees' dresses and thus could not in any circumstance be considered the dominant portion of their mark regardless of the manner of presentation. However, the very manner of usage by appellees in and of itself underscores the actual and the intended dominance of the word "SACHS."

2. The words "of California" without trademark significance.

It is appellant's contention that appellees' trademark is, to all intents and purposes, the word "SACHS," and that the expression "of California" is adjectival. With regard to this phrase the District Court made various findings, stating that "the term 'Sachs of California' is in part **descriptive** of the geographical origin and place of manufacture of all the goods manufactured by defendants" (R 38). Further on in the Memorandum of Decision the District Court stated:

> "* * * The words 'of California' attached to a dress label have acquired special value * * *. The use of

> the words 'of California' constitutes an added value and is a 'plus factor' in selling merchandise. Defendants adopted the term 'of California' to establish the **origin and place of manufacture of their goods** and to take full advantage of, and benefit from, the widespread national advertising and promotion of California-made goods'' (R 41) (Emphasis ours).

Further on the District Court stated as follows:

> ''Defendants attached great significance to the words 'of California' as **indicating place of origin** and as a customer attraction. The evidence indicates that goods originating in California have a special acceptance among retail and wholesale buyers in women's ready-to-wear apparel from whatever the cause may be'' (R 48) (Emphasis ours).

The District Court thus ambivalently held that the expression ''of California'' had both a primary and secondary meaning, being able to serve two distinct functions simultaneously. However, the term must be considered as either descriptive or otherwise; it certainly cannot be both.

To the extent that the District Court found the expression to be descriptive the appellant concurs, so that, in view of the precedents above cited, namely, **American Brewing Company, Inc. v. Delatour Beverage Corporation,** supra; **Hygienic Products Co. v. Huntington Laboratories, Inc.**, supra; **Bellbrook Dairies, Inc. v. Hawthorn-Mellody Farms Dairy, Inc.**, supra, the said descriptive phrase can have no trademark significance. The lack of distinctiveness of this phrase is well expressed in Callmann, **Unfair Competition and Trademarks**, supra, at page 1492:

> ''The addition of the business place of the trademark owner to the mark is not distinctive enough to obviate confusing similarity between the marks.''

Noteworthy in this regard is **Brooks Bros. v. Brooks Clothing of California, Ltd.**, supra, wherein the defendants added the expression ''of California'' to their trade name, but such was insufficient to prevent a holding of confusing similarity. Notice might also be taken of the holding of the Commissioner of Patents in **Ex parte Buddy Kit Co.** (1948), 77 USPQ 234. Therein, the trademark "Riviera of California," with the expression "of California" being disclaimed, as used on certain articles of men's wearing apparel, was held confusingly similar to the trademark "Riviera" as used on various items of men's and boys' wear. The applicant expectedly argued that its mark was distinguishable because of the addition of the words "of California" and "* * * that 'California sportswear' constitutes a type of garment now well recognized and which accordingly cannot be confused with ordinary clothing." In rejecting this contention the Commissioner stated:

> "While the mark must be considered as a whole, and descriptive or disclaimed features may not always be wholly disregarded, the disclaimed words 'of California' as used in this application **add nothing to the mark and cannot be considered to have any distinctive significance.** Nor can an applicant obtain right to registration of the mark of another by merely adding a descriptive or geographic term to it" (Emphasis ours).

Also pertinent in this regard is the case of **Richard Hudnut v. Du Barry of Hollywood, Inc.**, supra, wherein defendant's use of the expression "Du Barry of Hollywood" was considered confusingly similar to plaintiff's trademark "Du Barry." The court stated:

> "The words 'of Hollywood' in defendant's corporate title do not serve to distinguish defendant from plaintiff; on the contrary, the use of this corporate suffix in conjunction with the plaintiff's trademark and trade name Du Barry, has the effect of falsely representing that the defendant is the plaintiff or its Hollywood branch."

Also germane is **Celeste Frocks, Inc. v. Celeste of Miami, Inc.** (D. C. S. C. Fla.—1957), 150 F. Supp. 604, 114 USPQ

61, wherein the addition of the expression "of Miami" was insufficient to avoid the likelihood of confusion between the names of the parties. Quite recent is the holding in the case of **American Kennel Club v. American Kennel Club of La.** (D. C. E. D. La.—1963), 216 F. Supp. 267, 137 USPQ 852, wherein the adoption and use of the phrase "of La." was held inadequate to avoid a holding of confusing similarity between the names of the parties. In **Frankfort Distilleries, Inc. v. Kasko Distillers Products Corp.** (CCPA—1940), 111 F. 2d 481, 45 USPQ 438, the trademark of applicant, "Maryland Rose," as applied to whiskey was deemed confusingly similar to the registrant's mark "Four Roses" as used on the same merchandise. The court stated:

> "It is clear to us that the word 'Rose' is the dominant part of the appellee's mark, the word 'Maryland' not in any way indicating to purchasers the origin of the goods in the distiller, **but only the State in which the goods are produced.**"

In **Chester Barrie, Ltd. v. Chester Laurie, Ltd.**, supra, the defendant had registered the trademark "Chester Laurie of Hollywood" (with the words "of Hollywood" disclaimed), but such was held to be confusingly similar to plaintiff's trademark "Chester Barrie."

Thus, the precedents uniformly have held, and do continue to hold, that the mere addition to a trademark of the geographic place of manufacture of the goods in question does not serve to avoid confusing similarity. Such geographic phrases are descriptive and thus are without trademark significance. The District Court clearly did recognize the descriptive nature of the expression "of California" and in view thereof should not have considered same as a distinguishing feature of appellees' trademark.

The viewpoint herein expressed is also concurred in by appellees, since the following admission appears in their answer to appellant's complaint under the heading "Third Separate Defense." The appellees stated "that the term 'Sachs of California' " is descriptive of the geographical origin and place of manufacture of appellees' goods (R 28).

In considering the other aspect of the Court's finding to the effect that the expression "of California" has some special value or "plus factor" as used in trademarks, it is submitted that such a finding is not supported by the evidence. Appellees' witness Mr. Woodard testified that some 260 out of a possible 760 garment manufacturers in the State of California are members of an organization known as California Fashion Creators (RTR 367), and that most of the 260 utilize the expression "California" or "of California" in their trademarks. According to the testimony, the only requirements for joining the organization are ability to pay the dues and meet any assessments (RTR 364). There was no evidence that the members of the organization had to produce garments of a certain style, calibre of workmanship, colors, etc., there being thus no precise standards, so that, evidently, the organization's sole purpose is to promote the sale of the members' garments, as by advertising. Since all of the members are located in the State of California, then they, as well as other California firms who are non-members, would certainly have the right to use the name of the geographical place of origin of their goods. There is certainly nothing distinctive about such an expression when used by hundreds of diverse firms. Mr. Woodard testified that the use of "California" or "of California" was a "plus factor" in selling the members' merchandise (RTR 368). This is nothing more than a self-serving statement uttered by the president of the said organization, who could only be expected to so testify. To establish this so-called "plus factor", appellees would be expected to present purchasers from other parts of the country, rather than merely the understandably partisan statement of a California manufacturer. Secondary meaning, which at best is most difficult to establish, can only be proved by the reaction of customers and the general acceptance of a term in the market place. Appellees presented only Californians, and, with understandable pride in their home State, they could not be expected to have testified other than as Mr. Woodard testified. However, as will be shown hereinbelow, even Californians could not unequivocally testify in a manner corroborative of Mr. Woodard.

In this connection the implication of the District Court's finding should be carefully noted, for it indicates that the mere addition of the words "of California" to a trademark will in some way endow the merchandise with an added quality. There was no proof that the expression "California" or "of California" related to any particular garment qualities which were unique to garments made in the State of California; hence, the appellees did not use the expression "of California" to signify or refer to any properties of their dresses which would distinguish the same from dresses manufactured in any other part of the United States. Without some unique distinctiveness in the goods, there is no basis for considering the expression "of California" as more than a designation of a place of manufacture.

This view is substantiated by testimony of various of appellees' witnesses. Please note the following:

> "Q. Can you tell by looking at the garment whether it was manufactured in California or elsewhere?
>
> A. [Appellees' witness Miss Jefferson] Not exactly. They have certain characteristics, of course, of the brighter colors. You don't have so much in bright colors coming from the East as you do here. But, of course, you couldn't tell exactly" (RTR 281).
>
> * * * * * * *
>
> "Q. [By Mr. Kalish] Now these firms you mentioned, I think you gave New York City addresses.

A. Yes.

Q. Now, are they capable of producing garments with the proper colors to attract the average Californian?

A. I would say so.

The Court: Well, do they? The question of whether or not they are capable is one thing.

The Witness: They do.

The Court: All right.

The Witness: I wouldn't be buying from them if the merchandise wasn't selling.

The Court: All right.

Q. [By Mr. Kalish] Would you say that the garments produced by Stanhope and Joan Lee, Victoria [New York firms], etc., have color shades or color hues which are comparable to the color shades and color hues of Sachs of California dresses?

A. I would say so (RTR 473).

* * * * * * *

The Court: Is there such a thing as a California style which is recognizable as such in this line of dresses?

The Witness [Appellees' witness Weishar]: I don't think so. I mean styles change from week to week, month to month. I don't think I understand.

The Court: Is there anything characteristic in dresses manufactured by California manufacturers which distinguishes them generally——

The Witness: The one type, yes,——

The Court: ——from eastern manufacturers?

The Witness: Well, the one type would be, this time of year would be the tank top, the spaghetti dress, which is not a predominant styling of the East. It is done in Florida and it is done out here, and in Texas, and in your hot areas, of course, is where it is made.

The Court: Are there other features at other times of the year that would be similar?

The Witness: To the East?

The Court: No. That would be similar to what you have described here as distinctive.

The Witness: No, I don't think so" (RTR 474).

The testimony of appellees' witness Irving Singer would seem to coincide with that of Mr. Schechter in stating:

> "Our story, as I say, is color out here. In my estimation, what we have to sell is **primarily** color" (RTR 330). (Emphasis ours.)

Yet, as shown by the testimony of appellees' witness Weishar, the so-called "hot colors" are also used in the East:

> "* * * It [the use of hot colors] has been accepted all over the country. It is not where it is limited only out here" (RTR 475).

And both appellees' witnesses Weishar and Schechter forthrightly testified that the East had picked up the California color trend at least four years ago (RTR 476, 494), which was prior to the inception of appellees' firm in 1960.

Plaintiff's expert witness Eddie Silk fully corroborated the testimony of appellees' witnesses, as observe the following:

"Q. [By Mr. Kalish]: Mr. Silk, is there such a thing in the wearing apparel—I should say ladies' dress field known as the California style?

A. Well, that is an ambiguous question. I am afraid I can't answer that.

The Court: The question isn't ambiguous.

The Witness: The answer would have to be no, there is no such thing.

The Court: All right, that is the answer.

Q. [By Mr. Kalish]: As the California style?

A. No, sir.

Q. Would you be able, based upon your experience in the women's and misses dress field, to look at a dress without a trademark or label attached to it and determine whether it had been manufactured in California or elsewhere?

A. No, sir, I could not. I couldn't tell whether it was in Los Angeles, New York, Chicago, or where it was manufactured.

Q. There would be no means for such a determination based upon styling?

A. Not unless there is a label.

Q. Without a label?

A. A misses dress made in Los Angeles and a misses dress made in New York put side by side, I don't think that any buyer could tell the difference—I mean tell the city of origin, unless they picked different types of clothes completely. Anybody can be fooled. They could pick a heavy wool suit out of New York and a nice print dress out of California and ask you which was made where and your guessing would pick the print. If they picked a pretty print dress from New York and a pretty print dress from California and put them side by side, nobody could tell you where that dress is manufactured.

Q. Do you know whether or not women's dresses of the so-called leisure wear or casual wear type are produced outside the State of California?

A. They are produced all over the United States.

Q. Are there any particular colors, shades, or the like, in women's dresses which are particularly associated with the State of California?

A. Only higher shades are associated with California, but these same higher shades are made by Eastern lines to be sold all over the country at the same time" (RTR 112-114).

The foregoing testimony establishes that the expression "of California" has, in fact, no special meaning in the dress field, since the same types of dresses that are produced in California are produced in other areas in the United States and have been so since at least before appellees started their business. Therefore, it is submitted that the record does not support a finding that the expression "of California" is to be accorded some special value when used in the women's wearing apparel field.

A mere cursory examination of the firms listed in various exhibits of both parties, such as Appellant's Exhibits 69, 93 and 94, and Appellees' Exhibits P, Q, Y, Z, AA, BB, and CC (RTR 103), discloses that the use of the expression "of California" is so widely utilized that it is inherently incapable of the distinctiveness which the District Court would find therein. As a matter of fact, appellees' Exhibit Q alone is most revealing in this regard. (As an aside, the same Exhibit shows at least eight firms, of the relatively small number, set forth, using the word "originals"). Additionally, note should be taken of the fact that appellee, John Sachs, was personally well acquainted with the use of the term "of California", since he worked as a salesman for the firm known as Sun Maid of California (RTR 503) and was a partner in the firm of Steffi of California (RTR 506) prior to associating with appellees.

It must be remembered that appellees did not place in evidence any proof that they were manufacturing their garments, or styling same, in any particular manner at all, but were merely relying upon the fact that they had used the term "of California" in both their trademark and trade name, and by such addition to the name "Sachs", without more, assumed that their garments were entitled to a "plus factor". Certainly, the implications of this assumption, together with the District Court's holding in support thereof, is manifest, for if carried to its logical extreme, it indicates that almost any trademark which had been in use for years could be adopted by a

California concern and rendered proof against successful attack by merely adding the words "of California" thereto.

IV.

NOTICE OF APPELLANT'S TRADEMARKS.

In its Memorandum of Decision the trial court stated that "Although defendants may be charged with constructive notice of [appellant's] registered trademarks Nos. 502,925 and 708,120, they had no actual knowledge of their existence or use" (R 39). The District Court did note that appellees had made no search in the United States Patent Office to determine whether or not their trademark was confusingly similar to any registered mark. The District Court then went on to state that "The first notice **of any nature**" received by appellees as to appellant's trademarks was by a writing dated June 7, 1961 (R 41) (emphasis ours), slightly more than eight months after appellees had registered their Articles of Partnership, September 26, 1960.

The Trade Mark Act of 1946 provides as follows:

> "Registration of a mark on the Principal Register provided by this Act * * * shall be constructive notice of the registrant's claim of ownership thereof" (15 U. S. C. 1072).

Despite the specific language of this statute the trial court ignored the import thereof and relied improperly only upon the concept of real or actual notice. In so doing, the District Court denied appellant of one of the primary benefits provided by said Act. This Court stated, in a case decided a little over a month ago, **Pacific Supply Cooperative v. Farmers Exchange** (CAA 9—1963), Docket No. 17967, 137 USPQ 835:

> "For the first time registration of a mark gave **constructive notice to the world** of the registrant's claim of ownership (15 U. S. C., Sec. 1072), including those previously relying on intrastate use only."

In **Quality Courts United, Inc. v. Quality Courts, Inc.** (D. C. M. D. Pa.—1956), 140 F. Supp. 341, 109 USPQ 92, the court stated:

> "The greatest single advantage of a principal registration is that it is constructive notice of the registrant's claim of ownership of the mark * * *. Subsequent use of the mark by another * * * is an unlawful use and cannot be justified by a claim of innocence, good faith or lack of knowledge."

In **General Electric Co. v. Schwartz** (D. C. E. D. N. Y.—1951), 99 F. Supp. 365, 90 USPQ 198, the court stated:

> "The principal benefits gained by valid registration are of course the constructive notice to infringers (15 U. S. C. A. 1072) and the presumption of validity."

Also pertinent is the case of **Dawn Donut Co., Inc. v. Harts Food Stores, Inc.** (CCA 2—1959), 267 F. 2d 358, 121 USPQ 430, wherein the court made the following statement:

> "But the Lanham Act, 15 U. S. C. 1072, provides that registration of a trademark on the principal register is constructive notice of the registrant's claim of ownership. Thus, by eliminating the defense of good faith and lack of knowledge, 1072 affords nationwide protection to registered marks, regardless of the areas in which the registrant actually uses the mark."

The appellant's application for the registration of its trademark DON SACHS was published in the Official Gazette of the Patent Office of September 20, 1960, Exhibit 70 (RTR 251), which was prior to the filing of the Articles of Partnership of appellees; and in accordance with a relatively recent case appellees are presumed to have had constructive notice of appellant's said mark as of the date of publication. In **American Petrofina, Incorporated v. Mauro** (D. C. W. D. N. Y.—1960), 185 F.

Supp. 171, 125 USPQ 643, constructive notice under the aforesaid Act was interpreted as being effective as of the date of publication in the Official Gazette of the United States Patent Office of a party's application for purposes of opposition.

Accordingly, appellant is entitled to the full benefit of the said statute and, therefore, appellees must be presumed to have had notice prior to commencing their operations.

Despite the benefit of constructive notice under the said Act, the proofs adduced at the trial would circumstantially establish that at least appellee John Sachs had actual notice of appellant's trademarks long before he considered forming appellee partnership. It must be remembered that appellant had been conducting its business in the State of California for many years, and particularly in the City of Los Angeles, the situs of appellees' partnership, long before appellees established their business. Appellant had exhibited its dresses at the same "markets" as were utilized by the firms for which appellee John Sachs was a salesman for the ten to twelve-year period prior to inception of appellees firm, such as, particularly, the Pacific Coast Travelers Association "markets" held at the Biltmore Hotel in Los Angeles. In addition, the advertisements of appellant in Vogue magazine, Exhibits 25 to 30, inclusive (RTR 233), must, in all likelihood, have been seen by either Mr. or Mrs. Sachs of appellees' firm, or both, as well as possibly some or all of appellant's customers ads in California newspapers, Exhibits 49, and 52 to 63, inclusive (RTR 99). Accordingly, it is difficult to believe that there was not actual notice, in truth, at a date long prior to the inception of appellees' business.

It is therefore submitted that the District Court failed to find as a fact that appellees did have notice of appellant's trademarks before beginning their operation.

In connection with the matter of notice, the District Court found that at the time appellees had received appellant's notice dated June 7, 1961, the firm had become "well established and their products and trade name well known to the trade both within and without the State of California." Appellant most respectfully submits that there is **not the faintest scintilla of evidence** in the record which could in any way be construed as supporting such a finding. Appellees studiously avoided producing any evidence whatever as to volume of sales, either in dollars or units, for any period of time between the date of inception of the firm and the date of the trial. Nor did appellees give proof as to the expenditure for advertising its dresses under its trademark and trade name for any segment of time within the said period. Accordingly, such finding of the District Court is contrary to the evidence. Furthermore, certainly a court will take judicial notice of the fact that a substantially one-man business (since appellee Leo Hirsch was admittedly not active in the business) could scarcely, during the eight and a half month period between September 26, 1960 and June 7, 1961, and in such a fiercely competitive field as the dress industry, have effected such an operation as to cause its firm to be considered well established and its trade name well known. The record is barren of any proof which could provide a basis for the court's finding. This is not a question of weight of evidence, as there was a total absence of evidence. In improperly giving so much unfounded significance to the initial eight and a half month operation of appellees, whatever it might, in fact, have been, the District Court appeared to fail to consider with like mind the import of its findings as to the twenty-year operation of appellant in the same field, on a national scale, and with a sales volume **exceeding $1,500,000 annually** for the period and an expenditure of $400,000 for advertising (R 33).

V.

NOT REQUISITE TO SHOW ACTUAL CONFUSION.

The District Court, in its Memorandum, stated:

> "There was no evidence of actual confusion of goods. While this is not a prerequisite for relief it has been characterized as constituting the strongest evidence" (R 49).

The statement of the District Court indicates that it was persuaded that actual confusion must, in fact, be shown. The District Court gave no legal precedent for its viewpoint. The necessity of establishing actual confusion in cases of this type is contrary to common law unfair competition and to the Trade Mark Act of 1946. The authorities on this point are myriad. Note the following:

> "California follows the 'likelihood of confusion' test and does not require actual proof of confusion on the part of consumers." **Audio Fidelity, Inc., v. High Fidelity Recordings, Inc.**, supra.

Also see the recent case of **Drexel Enterprises, Inc., v. Colby**, supra:

> "And the law does not require that there be actual diversion of trade. It is sufficient that the imitation be of a character which is likely to have that result." **Brooks Bros. v. Brooks Clothing of California, Ltd.**, supra.
>
> "* * * although actual confusion is not essential in the proof of infringing a trademark." **Mershon Co. v. Pachmayr**, supra.

In the case of **MacSweeney Enterprises v. Tarantino** (1951), 106 Cal. App. 2d 504, 235 P. 2d 266, the court stated:

> "Proof of actual confusion is not necessary. If the facts support the conclusion that a purchaser of ordinary intelligence could reasonably be confused, that is all that is required."

In **Winfield v. Charles** (1946), 77 Cal. App. 2d 64, 175 P. 2d 69, the court stated:

> "It is unnecessary, in such an action, to show that any person has been confused or deceived. It is the likelihood of deception which the remedy may be invoked to prevent. * * * The universal question is whether the public is likely to be deceived."

See also **Lorraine Mfg. Co., Inc., v. Loraine Knitwear Co., Inc.** (D. C. N. D. Ga.—1949), 88 F. Supp. 634, 84 USPQ 71, wherein, despite the fact that plaintiff had not shown an instance of any purchaser being actually misled plaintiff prevailed. In **Swarthmore Classics, Inc. v. Swarthmore Junior,** supra, the court stated:

> "I have found that while there is no proof that any member of the public has been misled into the belief that plaintiff's blouses originate at the same source as defendants' dresses, it is probable that such a false belief will be generated. Evidence of specific instances of confusion is unnecessary; LaTouraine Coffee Co. v. Lorraine Coffee Co., C. C. A. 2, 1946, 157 F. 2d 115 (70 USPQ 429)."

Most apt is the following statement by the court in **Kay Dunhill, Inc., v. Dunhill Fabrics, Inc.,** supra:

> "* * * it was long ago held that the essence of wrong in trade mark cases 'consists in the sale of the goods of one manufacturer or vendor for those of another.' **Moreover, it is not necessary to establish by proof particular instances of such sales.** The misleading nature of defendant's name or of the contents of hang tags attached to or of advertisements of dresses manufactured from defendant's fabrics and the uncertainty arising therefrom constitute enough to be characterized as a prohibited invasion of the prior and superior exclusive right acquired by plaintiff to the trade name previous to defendant coming into the field as it did." (Emphasis ours.)

The pertinent portion of the Trade Mark Act of 1946, 15 U. S. C., Sec. 1114 (1), is set forth hereinabove (page 12). The following cases are merely exemplary of the judicial interpretation of said statute:

> "* * * it is not necessary to show actual cases of confusion since the test under the statute, 15 U. S. C. A., Sec. 1114 (1) is likelihood of confusion." **G. D. Searle & Co. v. Chas. Pfitzer & Co., Inc.** (CA 7—1959), 265 F. 2d 385, 121 USPQ 74.
>
> "In the instant case, there is no evidence that any purchaser was, in fact, confused or misled by the defendant's use of the name 'POL-PAK.' **However, it was not necessary for the plaintiff to prove actual confusion.** The statutory test is likelihood of confusion. 15 U. S. C. A. 1114 (1) (a); Keller Products v. Rubber Linings Corp., 213 F. 2d 382, 101 USPQ 307 (7th Cir. 1954); Independent Nail & Pac. Co. v. Stronghold Screw Prod., supra." **Pikle-Rite Co., Inc., v. Chicago Pickle Co., Inc.**, supra. (Emphasis ours.)

Appellant's case is not to be considered any the less strong because instances of actual confusion were not shown. It must be remembered that appellant, in sending its notice of infringement dated June 7, 1961, acted promptly—scarcely eight months after the appellees' beginnings—to prevent the incidence of actual confusion, and that by the time this case had reached trial there had been hardly twenty months of co-existence of the parties. Since appellees did not indicate or even remotely suggest their volume of sales, there cannot be any possible inference that the operations of appellees were on such a scale during the very short period of time involved to allow the development of actual confusion to any reasonable extent.

Appellees set forth as their so-called representative accounts various firms. However, it was certainly within appellees' power to present concrete evidence as to the extent of their sales to each of these firms; and since appellees did not see fit to produce such evidence, one may logically assume that if such had been adduced it would not have been favorable to appellees' position. Therefore, it is fair to presume that the extent of sales to these accounts was minimal in character, being possibly nothing more than a sample order.

> "It is a well-settled rule of evidence that when the circumstances in proof tend to fix a liability on a **party who has it in his power to offer evidence of all** the facts as they existed, and rebut the inferences which the circumstances in proof tend to establish, and he fails to offer such proof, the natural conclusion is that the proof, if produced, instead of rebutting, would support, the inferences against him, and the jury is justified in acting upon that conclusion. 'It is certainly a maxim,' said Lord Mansfield, **'that all evidence is to be weighed according to the proof which it was in the power of one side to have produced, and in the power of the other side to have contradicted.'"** **Fischer v. Insurance Company** (1911), 124 Tenn. 450. (Emphasis ours.)

In order that there be created a presumption that actual confusion was unlikely, appellees would certainly have had to show that their volume was of such an extent and distribution so widespread that a definite, continuing opportunity had been provided for the development of confusion. This they did not do. The law provides only for the establishment of the **likelihood of confusion** since, if the parties had to wait until such time as their respective operations allowed for actual confusion, both would necessarily suffer grievously. Consequently, appellant's providing actual notice with alacrity and following same promptly with this suit showed its concern for its property rights and its intent to prevent and avoid the development of actual confusion. Thus the test both at common law and by statute is the **likelihood of confusion**, not actual confusion. If the law were to be interpreted in the manner of the District Court, then only proof of actual confusion could support a finding of **likelihood of confusion.**

Additionally, it will be noted that the District Court used the expression "actual confusion of goods." It is submitted that the District Court applied an erroneous standard, since the true issue is not whether there is a confusion of goods, but whether there is a confusion as to the source of origin of the goods.

VI.

THE EFFECT OF APPELLANT'S REGISTRATIONS.

Appellant's Registration No. 502,925 for the trademark PAUL SACHS Original, Exhibit 1, became incontestable upon the filing of the affidavit required under Section 15 of the Trade Mark Act of 1946 (15 U. S. C. 1065). By virtue of the provisions of the said Act, appellant is accorded a conclusive presumption of its exclusive right to use the said trademark upon the merchandise specified, namely, women's and misses' wearing apparel, including dresses and suits. In the case of **Richard Hudnut v. Du Barry of Hollywood, Inc.**, supra, the court held that by virtue of the incontestability of the plaintiff's registration therein, plaintiff was accorded the right to use its mark "upon such other goods **as might naturally be supposed to come from the plaintiff**" (emphasis ours). Appellant submits that the appellees' dresses constitute such goods as might be expected to come from appellant. By reason of its incontestability, the aforesaid registration is not subject to attack upon the ground that the trademark is not a technical trademark, and it therefore is to be accorded maximum benefit of the said Act.

Appellant's registrations for the trademark DON SACHS, No. 708,120, Exhibit 2, although not yet entitled to the attribute of incontestability since it has not been used for five years subsequent to registration, is entitled to definite, strong presumption of validity. In this regard, the present Trade Mark Act has clearly exceeded prior Acts. The pertinent section of this Act, 15 U. S. C. 1057b, provides:

> "A certificate of registration of a mark upon the principal register provided by this Act shall be prima facie evidence of the validity of the registration, registrant's ownership of the mark, and of registrant's exclusive right to use the mark in commerce in connection with the goods or services specified in the certificate, subject to any conditions and limitations stated therein."

Each of the appellant's trademarks is fanciful, and such fact is stated in Registration No. 502,925, Exhibit 1. The record demonstrates that no individuals by the names of Paul Sachs or Don Sachs have ever been associated with appellant (RTR 221), so that both of appellant's marks are fanciful and arbitrary. In **Chester Barrie, Ltd. v. Chester Laurie, Ltd.**, supra, the court held that the plaintiff's registered trademark "Chester Barrie" was fanciful and arbitrary; "as such it is a strong mark." A similar holding was made by this court in the case of **Richard Hudnut v. Du Barry of Hollywood, Inc.**, supra, wherein it was stated that the registered trademark "Du Barry" was a strong trademark and valid at common law.

Thus, the courts have clearly recognized that trademarks of similar character to those of appellant are strong technical trademarks. It is submitted that this fact, and all implications thereof, were overlooked by the District Court, who, in comparing the marks of the parties, indicated its doubts as to the validity of appellant's marks and the protection to which they are entitled by the statement: "If plaintiff's marks have an established secondary meaning, * * *" (R 50). Since appellant's trademarks are registered on the Principal Register, there can certainly be no question as to the same having secondary meaning. The doctrine of secondary meaning attaches to unregistered or common-law trademarks, and more particularly to trademarks which consist of words having a primary lexical meaning. The District Court's statement, in addition to apparently disregarding the rights provided appellant's trademarks by their registrations, also suggests that the District Court did not take into consideration the long, widespread usage of appellant's trademarks prior to appellees' inception. By the date of the trial, appellant had used its trademark PAUL SACHS Original for twenty consecutive years, whereas its trademark DON SACHS had been used for about three years. Despite appellant's high volume, national usage during these periods, the District Court seems, by the said remark, to question whether appellant's marks developed any rights in that time (despite registration). On the other hand, the District Court, without evidence, found that the appellees, during the period September 26, 1960 through June 7, 1961 (less than eight and a half months), had caused their trademark and trade name to be "well established" and their products "well known to the trade both within and without the State of California" (R 41). There is nothing in the record to warrant an attack upon either of appellant's registrations; therefore, the District Court's aforesaid statement of doubt concerning the character of appellant's trademarks is unsupported and further demonstrates the overlooking of the benefit and import of registration.

VII.

LIKELIHOOD OF CONFUSION ESTABLISHED.

As established by the record, and as discussed hereinabove, two cardinal facts stand out in relief:

> **One: The dresses of the parties are substantially identical merchandise, but in any event, are capable of emanating from the same source of origin.**

Two: The dominant portion, namely, SACHS, of each of the trademarks of the parties is identical. In view of these facts, concurrent use of the respective marks of the parties upon their dresses could only be likely to cause confusion or mistake or deception among purchasers as to source of origin of the goods.

In cases of this type the problem is not one of confusing store buyers, since they know the source from which they are buying merchandise for resale and expectedly exercise selectivity when making purchases for the purpose of enhancing the profits of their particular organizations. The testimony of appellant's witness Eddie Silk brought out that store buyers and salesmen for dress manufacturers become good friends through their constant contacts (RTR 78-79), which friendships allow for initial sales from the salesmen when they work for other concerns. Thus, obviously Mr. John Sachs of appellees' firm, through his many years as a salesman for Sun Maid of California; Lou-Ette Originals, and Steffi of California developed friends among store buyers, who no doubt were inclined to purchase from him when appellees' firm was started. Such purchases, however, are obviously without reference to any particular trademark but are based upon a personal acquaintanceship between the store buyer and the salesman. In the case of **Lorraine Mfg. Co., Inc. v. Loraine Knitwear Co., Inc.**, supra, the court noted that the store buyers for the parties' goods, because of their positions as buyers, could not be misled as to the source of goods. But this recognition justifiably did not interfere with the court's holding that plaintiff's trademark "Lorraine" on textile fabrics used in the manufacture of articles of clothing, was infringed by "Loraine" as used on sweaters, swim wear, jackets, sports shirts, tee shirts. **Therefore, it is a question as to confusion of the ultimate consumer as to the source of origin of the dresses.** It is the consumer who must be protected. In its Memorandum of Decision the District Court found that the difference in goods manufactured and sold by the respective parties was recognizable by "the customers and prospective customers of the respective parties" (R 48). As the record shows, the parties sell to department stores and specialty shops, so that any lack of confusion on the part of such establishments is not properly involved in this case. The District Court in referring to a division between "lines" of dresses, stated that the apparent overlapping was recognized in industry. "If this signal is not recognized by the woman retail customer, it is recognized by **the store buyers**" (R 33) (emphasis ours). It is submitted that the District Court was improperly influenced by lack of confusion on the wholesale or industrial level, and such is of no moment in cases of this type.

In the present case, the Court is not presented with a so-called "double difference" situation, wherein there is a distinction in the goods and a distinction in the marks, nor with but a single difference in either the goods or the marks, but is faced with a situation wherein the parties produce substantially identical merchandise which is sold in the same channels of trade under trademarks having identical dominant portions. Pertinent is the case of **Brooks Bros. v. Brooks Clothing of California, Ltd.**, supra, wherein both parties dealt in men's clothing and wherein the dominant portion of the trademarks was identical, as each contained the word "Brooks." Interestingly enough, in that case defendant sought to distinguish its goods on the ground of lower price, etc., but the court countered by stating, "Clothes is clothes." Defendant also sought to distinguish its trade name on the ground that the same incorporated the expression "of California." Yet plaintiff prevailed. In **Lane Bryant, Inc. v. Maternity Lane, Ltd.** (CCA 9—1949), 173 F. 2d 559, 81 USPQ 1, the goods of the parties were maternity garments and their trademarks and trade names incorporated the word "Lane." Incidentally, the corporate name of defendant was "Maternity Lane, Ltd. of California." Therein, this Court reversed the District Court's judgment dismissing the complaint. Another case wherein the merchandise was substantially the same and the trademarks incorporated the same dominant portions is: **Chester Barrie, Ltd. v. Chester Laurie, Ltd.**, supra, wherein the merchandise of the parties consisted of articles of wearing apparel and the trademarks and trade names were Chester Barrie and Chester Laurie. Therein the defendant was utilizing the expression "Chester Laurie of Hollywood" as well, but in holding for the plaintiff the court most aptly stated:

> "Colorable imitation of part of a valid mark of another constitutes infringement where, as here, 'the part * * * taken identifies the owner's product without the rest.' Parfumerie Roger & Gallet v. M. C. M. Co., 2 Cir., 1928, 24 F. 2d 698, 699; Caron Corp. v. Ollendorff, 2 Cir., 1947, 160 F. 2d 444, 73 USPQ 79."

In that case the court appreciated the relative weight of parts of a trademark in holding infringement and unfair competition. In **Pikle-Rite Co., Inc. v. Chicago Pickle Co., Inc.**, supra, the merchandise of the parties were the same, namely, pickles, and the dominant portions of the marks, namely "Pol-" of the respective trademark "Polka" and "Pol-Pak" were identical, resulting in the holding of infringement by the defendant. In **John B. Stetson Co. v. Stephen L. Stetson Co., Ltd.** (D. C. S. D. N. Y.—1936), 14 F. Supp. 74, 29 USPQ 586, affirmed (CCA 2—1936), 85 F. 2d 586, 30 USPQ 330, the merchandise of the parties were the same, namely, hats, and the dominant portions of both marks were the same, namely, "STETSON," so that the unfair competition and trademark infringement of defendant were made out. Also, in **Hat Corporation of America v. D. L. Davis Corp.** (D. C. Conn.—1933), 4 F. Supp. 613, 19 USPQ 210, the merchandise of the parties were the same, namely, hats, and the salient portions of the marks were the same, namely, "Dobbs," whereby the existence of unfair competition was obvious.

As discussed hereinabove, in order for a party to succeed in suits of this character it is not requisite that the goods be identical. With similar dominant portions in respective marks it is only necessary that the related merchandise be sufficiently related to suggest to the consumer a common source of origin. As this point has been fully discussed hereinabove, reference may be made to the following cases: **Kay Dunhill, Inc. v. Dunhill Fabrics, Inc.**, supra; **Swarthmore Classics, Inc. v. Swarthmore Junior**, supra; **Richard Hudnut v. Du Barry of Hollywood, Inc.**, supra; **Fancee Free Mfg. Co. v. Fancy Free Fashions, Inc.**, supra; **Barbizon Corp. v. Hollub**, supra; **Williamson-Dickie Mfg. Co. v. Davis Mfg. Co.**, supra.

There are other important facets to the matter of usage of a confusingly similar trademark by a late comer which should be carefully noted in order for a full appreciation of the damage which the prior user will sustain.

Appellant, through its long, widespread usage of its trademarks and through its advertising in national consumer publications, has developed, at considerable expense and effort, a good will in and to its trademarks of inestimable value. By the publications in which it has advertised and by the character of its advertisements appellant has consistently sought to endow its trademarks with a tone of prestige. Appellees, by use of a trademark incorporating the words "SACHS" are in a position to place in the hands of stores a tool whereby the same could trade upon the prestige advertising of appellant and capitalize upon appellant's good will. Appellant's reputation, gained at such effort, is worthy of protection. The statement of the late Judge Learned Hand in **Yale Electric Corporation v. Robertson** (CCA 2—1928), 26 F. 2d 972, is most apt:

> "His [a merchant's] mark is his automatic seal. By it he vouches for the goods which bear it. It carries his name for good or ill. If another uses it,

> he borrows the owner's reputation whose quality no longer lies within his own control. This is an injury, even though the borrower does not tarnish it, or divert any sales by its use; for a registration, like a face, is the symbol of its possessor and creator, and another can use it only as a mask."

Also apt is a case decided by this Court, namely, **Del Monte Special Food Company v. California Packing Corporation,** supra.

Another aspect of the seriousness of this situation was brought out most vividly by the testimony of appellees' witness, Mr. Weishar, who testified as to the inherent damage in "splitting of lines."

> "A. We very seldom try to split a line, because it is no good. If they see a line in my department and you can't put it into a better price range, too, the customers will start, 'Why should I pay so much more and get the same merchandise or **the same name** or same person's goods?' " (RTR 451.) (Emphasis ours.)

Mr. Weishar then went on to testify as to the problem of a particular manufacturer known to him who had had two lines of dresses, one on the inexpensive level and the other at a higher price, but to avoid confusion on the part of customers, this manufacturer was forced to adopt a different trademark for each of his lines. Note Mr. Weishar's testimony:

> "Ramar of California, \$6.00 and \$8.75 is Ramar of California, and he made some \$10.00's. Usually a spread of \$6.00 to \$10.75. That one he calls Mr. Ray of California. So there you have a different label. It still is in my own department, but the customer has been accustomed to seeing Ramar and not paying more than \$15.00 for a dress. All of a sudden you will hit her with a \$20.00 dress and she will start

complaining about the workmanship or this or that and wouldn't be satisfied. So he changed his $10.75 label to a Mr. Ray of California label'' (RTR 452).

In view of this telling testimony, the concurrent selling of dresses of appellant and appellees under their respective trademarks within the same store departments, much less within the same stores, could only cause the development of confusion with obvious damage to appellant.

It is submitted that the record in this cause unequivocally establishes the likelihood of confusion or deception or mistake among purchasers as to the source and origin of the dresses of the parties when identified by their respective trademarks. This view is in full accord with the facts and in full agreement with the law.

CONCLUSION.

It is submitted that in making the various findings upon which the District Court based its decision in the Memorandum of Decision, the Court inadvertently misconceived the applicable law and was influenced by a lack of appreciation for the economic significance of the many imponderables and intangibles involved in a suit of this character. Foremost, the District Court, instead of applying the criterion of confusion as to source of origin, seemingly used confusion as to goods as the determinant. In considering the trademarks of the parties the District Court, instead of being governed by the portions of the marks which were capable of trademark significance and of thus identifying the merchandise of the parties, was influenced erroneously by the descriptive portions of the marks which were incapable of trademark significance. Additionally, as pointed out, the District Court erred in not recognizing the benefits to which appellant's trademarks were entitled by reason of their registrations and, in effect, gave no judicial recognition to the Trade Mark Act of 1946.

In view of the evidence adduced at the trial, the precedents above cited and discussed, and the arguments herewith submitted, it is earnestly contended that appellees, by their use of "SACHS of California," have infringed the registered trademarks of appellant, committed acts of unfair competition with respect to appellant's trademarks, trade name and good will, and have violated valuable property rights of appellant. Therefore, appellant, in order to protect assets which have been developed at tremendous expense and effort over a twenty-year period, is entitled to the injunctive relief prayed and to a reversal of the judgment of the District Court.

Respectfully submitted,

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APPENDIX.

APPELLANT'S EXHIBITS.

No.		Record Page* (RTR)
1	Certified copy of U. S. Registration No. 502,925............	...
2	Certified copy of U. S. Registration No. 708,120............	...
3	Appellant's cloth label for trademark PAUL SACHS Original	87, 205
4	Appellant's hang tag for trademark PAUL SACHS Original	88, 205
5	Appellant's cloth label for trademark DON SACHS Original	89, 205
6	Appellant's hang tag for trademark DON SACHS Original	89, 205
7	Advertisement, Vogue Magazine, Nov. 15, 1942............	259
8	Advertisement, Vogue Magazine, Feb. 1, 1944.............	176, 259
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No. 18,774

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

PAUL SACHS ORIGINALS CO.,

Appellant,

vs.

JOHN SACHS and LEO HIRSCH, Doing Business as SACHS OF CALIFORNIA, a Partnership,

Appellees.

BRIEF FOR APPELLEES.

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BRIEF FOR APPELLEES.

Restatement of the Case.

Plaintiff has extracted isolated portions of the evidence and findings of the trial court which plaintiff considers favorable to its case; plaintiff has completely ignored almost every unfavorable fact in the record and finding in the Memorandum Decision so carefully prepared by Judge Albert Lee Stephens, Jr. [R. 30-51; 217 F. S. 407-417].

In order to gain a complete understanding of all the facts in issue, as well as the actual decision made by the trial court, it is, of course, essential to read that entire decision [R. 30-51]. At this time we submit the following facts are *substantially uncontradicted* although not accurately reflected in appellant's "Statement of the Case" or anywhere else in appellant's opening brief:

1. The actual trade-marks used by plaintiff consist of two separate three-word combinations, "Paul Sachs Original" and "Don Sachs Original", in which the first two words in each trade-mark, *i.e.,* "Paul Sachs" and "Don Sachs" are *invariably* printed in the same size, color, and type. In recent advertising by plaintiff, the term "Paul Sachs" frequently appears in *block letters* with the word "Original" in *script;* "Don Sachs" frequently appears in *script* with the word "Original" in *block letters* [See Pltf. Exs. 26, 27, 28, 29, 30, 32, 33, 72]. Earlier advertising had all three words "Paul Sachs Originals" in capital block letters [Pltf. Exs. 8, 9, 18, 19, 20, 21, 22, 23, 36, 38, 49].

a. Where the word "Original" is written in script with "Paul Sachs" in capital block letters, or where "Original" appears in block letters with "Don Sachs" in script, it might well be argued this gives the word "Original" greater emphasis.

b. Plaintiff has *never* utilized any advertising or label in which the single word "Sachs" has been used or emphasized as the major or dominant word in the trade-mark, label or advertisement.

c. Although plaintiff was required to disclaim exclusivity in the word "Original" when it registered the trade-mark "Paul Sachs Original" "*apart from the mark as shown and described*" [R. 37], and plaintiff did not attempt to register the word "Original" as part of its trade-mark "Don Sachs", nevertheless, *every label and hang-tag and virtually every advertisement uses the three-word combinations "Paul Sachs Original" and "Don Sachs Original"* [See Pltf. Exs. 3-23 incl., 25-30 incl., 32-34 incl., 72-75B incl].

2. Defendants' trade-name also consists of a three-word combination, "Sachs of California", which is the firm name of the business owned and operated by John Sachs in Los Angeles, California. This business name appears in full on every label, hang-tag, mailing piece, and all advertisements prepared by defendants. [See Deft. Exs. A, B, C, D, E, F, G, H, I, J, K, R, S, T.]

3. *There is no substantial similarity or identity in appearance, size, color, type, or printing* between the labels, hang-tags, advertising, or mailing pieces of plaintiff and defendant; *nor is there any identity or similarity of sound when the two names are taken in their entirety, i.e.,* "Paul Sachs Original" does not sound like "Sachs of California" [See Findings of Trial Court, R. 50].

4. Plaintiff does not contend defendants acted in bad faith or with any intention of deceiving or "palming off" their goods. Plaintiff's contention is that defendants acted with "constructive notice" of the registered trade-mark "Paul Sachs Original" and of the application for registration of "Don Sachs" filed ten days before defendants commenced doing business. Notwithstanding twenty months of alleged competitive use in the same territory, plaintiff produced no evidence whatever of actual confusion, damage or injury.

5. Plaintiff conceded in the trial court that retail buyers for stores "are buying the merchandise entirely without respect to trade-mark and thus would purchase the merchandise from the individual regardless of what mark he may use" (Plaintiff's Trial Brief, p. 3). Since all store buyers are experienced in the field of purchasing women's dresses from manufacturers, they

are, thus, *conceded* by plaintiff to be acquainted with the identity of each of the parties with whom they are dealing, *i.e.*, "Paul Sachs Originals Co." (of Missouri) or "Sachs of California". Plaintiff does not suggest how or in what manner there is the slightest "reasonable likelihood of confusion" in connection with the sale of its products to the retail trade.

6. With respect to the women customers who eventually purchase dresses in the various retail stores, plaintiff chooses to *ignore* the sophisticated personal taste involved in the selection of women's dresses by individual customers. *Uncontradicted evidence* on this point was summarized in the decision of the trial court as follows:

> "As can readily be proved from what has already been said, women who purchase ready-to-wear garments possess a certain sophistication concerning the language of the marketplace and they are discerning and discriminating. The number and variety of trade-marks used by manufacturers are legion and the distinctions are subtle and yet they are understood and appreciated by wholesale and retail customers." [R. 49].

Both wholesale and retail women customers have distinguished for many years between dress manufacturing firms whose names are substantially similar [See Exs. P and Q]. Compare for example:

Alexander's of California—Jeannette Alexander
Bette of California—Betty Lou of California
California Colormates—California Playmates
Debby of California—Debbie Reynolds Originals
Ellson of California—Elon of California
Gallant of California—Gallina of California
Junior Miss of Calif.—Junior Petites of California

Loubella Originals—Lou-Ette Originals
Jerry Miller of Calif.—Julie Miller of Calif.
Saba of California—Sa'Bett of Calif.

We are not here dealing with two low-priced mass-produced articles which are substantially identical in form and content, distinguishable only by name or trade-mark (*e.g.*, soap products), nor are we dealing with a copy or imitation of a Dior or Balenciaga "original" dress, bearing a fraudulent label designed to mislead the public. We are here involved with the personal taste of sophisticated buyers who will only purchase if satisfied with the style, quality, fabric and price of the particular dress, and if it "fits" and is "becoming" to the individual purchaser. The *uncontradicted evidence* on this point is summarized in Point I, *post.*

Primary Issues.

The primary factual issues in the case, upon which appellants have presented a distorted picture of the evidence, are as follows:

1. Are the trade-marks of the parties readily distinguishable by the ultimate retail purchasers exercising reasonable discrimination?

2. Is there any genuine likelihood of confusion by trade customers or ultimate purchasers from retail stores?

The primary legal issue in the case is whether or not appellants can maintain a monopoly in the use of the surname Sachs although neither their trade-marks, labels or advertising at any time since the inception of their business have featured the name Sachs as distinguished from the remainder of their trade-mark "Paul Sachs Original" and their recently adopted "Don Sachs Original".

Summary of Argument.

I.

No actual competition between parties in merchandise or customers.

II.

The surname "Sachs" is not the "dominant" part of plaintiff's trade-marks.

III.

Plaintiff's substantive rights are not enlarged by the "incontestability clause" of the Trade-mark Act of 1946.

IV.

Defendant's right to use his own surname in his own business cannot be defeated by plaintiff's registration of two different trade-marks which have not been, nor are they likely to be, confused with defendant's tradename.

V.

The legal test of "likelihood of confusion" is *probability,* not *possibility.* Findings of fact by the trial court should be sustained even "where reasonable minds might differ".

VI.

Trade-marks must be considered "as a whole" with due regard to:

(1) Similarity in appearance, sound and context;

(2) Degree of care likely to be exercised by purchasers; and

(3) Whether there is colorable imitation, fraudulent advertising, or honesty and good faith exercised by defendant.

VII.

Plaintiff's cases involving deliberate misappropriation of a fanciful trade-mark are not in point.

VIII.

Defendant's tradename "Sachs of California" consists of a three-word combination which has acquired secondary meaning identifying defendants and their merchandise. There is no probability (likelihood) of confusion with plaintiff's trade-marks.

POINT I.

Plaintiff Errs in Contending That the Merchandise Manufactured by the Parties, the Methods or Channels of Sale, and the Wholesale and Retail Customers Are the Same (App. Op. Br. pp. 11-28).

In the trial court plaintiff makes a series of contentions completely disproved by the evidence, including without limitation:

(a) That the dresses made by the parties are "physically identical" (Plaintiff's District Court Brief, p. 18).

(b) That the parties "operated identically in selling their merchandise at the wholesale level" (*Idem.*, p. 19).

(c) That the parties "sell to the same stores" (*Idem.*, p. 19).

Because the trial court made adverse findings on these very issues of claimed identity *raised by the plaintiff*, criticism is now levelled against the District Court for "not applying the proper standard" (App. Op. Br. p. 12). Yet in almost the same breath, appellant maintains that "the goods of the parties are *for all practical purposes identical*" (App. Op. Br. p. 12). Even if the goods were identical, plaintiff would be unable to sustain its claims of trade-mark infringement and unfair competition because there is no confusing similarity in the appearance of the marks of the respective parties [R. 50]. But the goods are *not* identical "for all practical purposes" or otherwise; the methods and channels of sale are different; and neither the retail stores nor the eventual women customers who buy the dresses are the same.

1. **Plaintiff and Defendents Do Not Manufacture the Same Style or Type of Dress, But Each Designs Its Respective Line of Dresses for Women Customers With Different Shapes and Figures.**

Plaintiff argues that both plaintiffs' and defendant's dresses are sold "to the same clientele"; and that since "a 30-year old woman and a 17-year old girl buy the same dresses" the evidence "proved that the dresses of the parties did not appeal to different segments of the market" (App. Op. Br. pp. 22-23). Here again appellant distorts the evidence which clearly shows that only women of certain physical measurements and proportions could or would purchase defendant's merchandise; and that only women of different physical proportions, figure, and measurements could or would purchase plaintiffs' merchandise.

Each manufacturer deliberately caters to a completely different segment of the market; any discerning woman shopper immediately knows and observes the difference because one manufacturer's dress would fit her, and the other could not possibly do so. As found by the trial court:

> ". . . each manufacturer strives to have a distinctive 'line' . . . To the extent that it is suc-

> cessful, the sales in part reflect the effort and *the manufacturer stays with that category* . . . The line is designed to fit women whose figures meet a certain combination of measurements and whose tastes are satisfied by the line offered." [R. 35].

Defendants manufacture only one category of female dress, which is technically known in the garment industry as a "young missy" dress [R. Tr. 382]. This does not mean the woman who wears the dress must be chronologically young, but she must have a "youthful figure" of *certain physical dimensions* in order to have the dress fit the woman and the woman fit the dress, to wit: (1) high bust, (2) narrow waist, and (3) trim hips: *e.g.,* in size 12 the "young missy" dress manufactured by defendants is cut as follows: bust 36, waist 26½, hip 37 [R. Tr. 413]. This "young missy" dress will fit only this so-called "youthful figure", *i.e.,* in size 12 the bust measurement of the woman wearing the dress must be approximately 35, waist 25½, hip 36 [R. Tr. 412]. The "young missy" term does *not* refer to the age of the customer but to her figure:

> "It doesn't make any difference how old a woman is, if she would fit that size she would be a young missy customer" [R. Tr. 395].

The *true* fact is that the physical measurements of defendants "young missy" dresses are substantially different from plaintiff's "misses" dresses, and nearly every witness testified to these physical differences. Morrell: The "misses" dresses must be worn by a "more mature woman", "more conservative", "fuller bustline", "a little more in the hipline" [R. Tr. 268-

269]. Weishar: The "young missy" dress is "a younger dress" for a "younger figure", "the styling is different", "a different type of neckline", "a higher bustline" [R. Tr. 457].

There is no evidence before the Court that the plaintiff has ever at any time manufactured a "young missy" dress or any dress which conforms to the physical measurements of the dress line manufactured by defendants and other "young missy" dress manufacturers. On the contrary the physical measurements for *all* "misses" garments sold and offered for sale in the stores by women apparel manufacturers are *one to two inches larger in each basic measurement; i.e.,* in size 12, the bust is 37, waist 27½, hipline "a good 39" [R. Tr. 431].

It is of utmost importance and significance that Mr. Abrams, plaintiff's President, was present in Court during the entire trial and yet at no time attempted to contradict defendants' evidence as to the physical measurements of "misses" dresses as distinguished from "young missy" dresses. The only inference which can be drawn from his failure to deny, contradict or explain defendants' evidence is that the physical measurements of plaintiff's dresses were *in fact* those described by defendants' witnesses as applicable generally to all "plaintiff's" dresses. If plaintiff had ever manufactured any dress which had the *physical measurements* of defendants' "young missy" dresses, plaintiff's President would certainly have so testified.

Reference made by plaintiff's counsel (App. Op. Br. p. 20) to the "same coincidence of sizes" in both parties' lines of dresses is misleading. Sizes 8 to 16 apply to every category in the dress field, whether it be junior, junior petite, young missy, misses, women's or half sizes. However, the *physical measurements and "styling" of each category of dress in the same size are completely different and are made to fit a different size, shape and figure of girl or woman* [Morrell, R. Tr. 263; Hope Sachs, R. Tr. 394].

As testified by Mr. Weishar, the "*young missy* dress is a completely different type of dress" than the corresponding size of *misses* dress", "it is *not* the size range; it is the styling that goes into the size that is the most important thing, to distinguish where it categorically fits" [R. Tr. 480].

Plaintiff thus ignores the most important single factor in the sale of both plaintiff's and defendants' dresses, to wit, they must "*fit*" the customer. These dresses are in the so-called "ready-to-wear" field in which specialty dress shops "don't alter" [R. Tr. 297]; department stores "charge for alterations" [R. Tr. 463]. A dress "must fit as is, or no sale" [R. Tr. 297]; "if it doesn't fit the customer she doesn't buy it" [R. Tr. 473].

2. Plaintiff's Counsel Is Completely in Error in Contending That the "Trade Recognizes No Distinction" Between the "Misses" Dresses Manufactured by Plaintiff and the "Young Missy" Dresses Made by Defendants.

Plaintiff argues that the "trade recognizes no distinction" between the so-called "misses" dresses manufactured by appellant and the so-called "Young Missy" dresses manufactured by defendant (App. Op. Br. pp. 23-26).

The trial court made detailed findings upon the differences between the various types of lines manufactured by plaintiff and defendants: "each manufacturer strives to have a distinctive 'line'" [R. 46]. In answer to plaintiff's contention that the trade does not recognize a distinction, the Court said:

"This conclusion is unwarranted" [R. 48].

The evidence clearly supported the finding made by the trial court. Mr. Weishar expressly testified to the names of four manufacturers on the East Coast (Joan Lee, Victoria, Candy Frocks and Normay), and four manufacturers on the West Coast (Sachs of California, Dresscapades, Lido Casuals and Jerry Miller), each of whom is "known in the trade and understood in the trade as a producer solely of young missy dresses" [R. Tr. 471, 472, 473, 488]. Significantly, Mr. Weishar was unable to name a single manufacturer producing *both* "misses" and "young missy" dresses [R. Tr. 479].

Herman Schechter, owner of California Buying Services Incorporated, buying for over one hundred stores throughout the United States, testified that he could "very easily" determine whether a particular dress was a "young missy" garment because *"there are certain manufacturers who make young missy"* and *"each particular manufacturer in our market more or less stands for some particular type of garment or item he makes"; some manufacturers only make "women's sizes"; some make "young missy"; "usually a manufacturer who makes a category stays with it"* [R. Tr. 489, 493].

Even plaintiff's witness, Edward Silk, upon cross-examination, testified to the existence of a separate category of dresses known as "young missy";

> "Q. . . . Is there such a characterization as a young missy dress? A. Yes. There is such a thing" [R. Tr. 157].

3. Plaintiff Errs in Contending That Plaintiff and Defendants "Operate Identically in Selling Their Merchandise on the Wholesale Level" (App. Op. Br. p. 21).

Plaintiff argues "there is no distinction in trade channels" through which the respective parties market their dresses, and that "the parties operate identically in selling their dresses on the wholesale level" (App. Op. Br. p. 21).

The uncontradicted evidence is that except for one salesman employed by defendants to canvas stores in California, the great bulk of defendants' business is done through *channels not utilized by plaintiff,* to wit: (1) markets held by California Fashion Creators; (2) wholesale buying services having headquarters or offices in Los Angeles, who buy for hundreds of stores throughout the country; and (3) a Los Angeles showroom.

Mr. Sachs testified [R. Tr. 514] that 30% to 35% of the annual business of the defendants was generated by the two markets of California Fashion Creators held semi-annually in January and June of each year, which is "open only to manufacturers of California merchandise"; each Market Weeks lasts for a period of four days and approximately 30,000 invitations are sent to retail stores, specialty shops, and department stores throughout the United States to solicit attendance by buyers [R. Tr. 346]. It was stipulated during 1961 buyers attended from all 50 states of the United States and, in addition, buyers came from Australia, Belgium, Canada, Cuba, Guam, Mexico, and South Africa [R. Tr. 355]. "The primary purpose of the Market Week" is to solicit orders "from these buyers who attend from all over the United States and from other parts of the world" [R. Tr. p. 347].

Mr. Sachs also testified that "a high percentage" of the defendants' annual business is generated by the "dozen or so" national wholesale buying services which have offices in Los Angeles and buy for hundreds of stores throughout the country [R. Tr. 514]. The trial court expressly found that "a large segment of the business done by defendant Sachs of California consists of sales made through those same buying services with which defendant John Sachs previously did business under the name of 'Steffi of California' "; these buying services maintaining offices in the City of Los Angeles and arranging for purchase of dresses from clients "numbering for each buying service from fifty to three hundred stores located in various parts of the country" [R. 41]. Appellant did not contend that it ever transacted any business with any buying service, and, as found by the court, appellant was not privileged to exhibit its merchandise or sell the same at the semi-annual markets held by California Fashion Creators: the two major wholesale trade channels utilized by defendant.

It is, therefore, apparent from the *uncontradicted evidence* that plaintiff and defendants do *not* "operate identically" but that the largest volume of defendants' business comes from sources not utilized by and not available to plaintiff, to wit, plaintiff is *ineligible* to show its merchandise at the markets held semi-annually by California Fashion Creators; plaintiff has produced *no evidence* of sales to or through national buying services which have headquarters or offices in Los Angeles; and, of course, plaintiff maintains *no* Los Angeles showroom—nor do defendants maintain showrooms in St. Louis, Missouri, or New York City.

4. Plaintiff Errs in Contending That Plaintiff and Defendants Both "Sell to the Same Stores".

Under the heading "To The Sam Stores", appellant argues that "both parties had sold their dresses to identical stores in California"; "sales to not just the same types of stores, but to the very same stores" (App. Op. Br. p. 21). The argument is grossly misleading.

The only evidence offered by plaintiff to sustain this contention is that in the year 1952 (eleven years ago), plaintiff sold a few hundred dollars in merchandise to certain May Co. stores [Pltf. Ex. 78]; also that between 1952 and 1956, plaintiff sold to the Style Shop in Salinas an average of $110.00 per year, and in 1960 $56.83 [Pltf. Ex. 78]. There is no *evidence* that plaintiff sold to any May Co. store since 1952. Defendants "once" sold dresses to The Style Shop [R. Tr. 545] and presently sell to the May Co.; but the May Co. buyer, Mr. Weishar, testified that he had never heard of plaintiff or its merchandise [R. Tr. 455]. Plaintiff's contention of "sales to the same stores" is, therefore, illusory and misleading. There is evidence of only *one overlapping sale to the same store*—upon a minimal order.

It is most significant to us that although plaintiff claims to have sold an estimated "three hundred California accounts" and to have "one hundred active accounts annually" in over 75 different cities in the State of California [R. Tr. 114, 115] and "defendants have sold their dresses to some one hundred seventy-five to two hundred accounts in California" [R. Tr. 540], and notwithstanding the fact that the parties were selling their merchandise to hundreds of stores in the State of California and elsewhere for twenty months prior to trial, with the single exception of The Style Shop in Salinas to which defendants "once" sold their dresses, *there is no evidence whatsoever of any overlapping sale to any other store in California or elsewhere throughout the United States.* This is the more striking inasmuch as defendants listed their California accounts as including Haggarty's, Bullock's, May Co., Harris & Frank, Bond's, Zukor's, Foreman & Clark, The Emporium in San Francisco, the Marston Company and May Co. in San Diego, Gold's and Eastern in Sacramento, etc. [R. Tr. 510]; also sales to Franklin Simon in New York City, Filene's and Stern's in Boston, Winkelman's and J. L. Hudson Company in Detroit, Gimbel's in Pittsburgh, and other leading stores throughout the nation [R. Tr. 512].

Notwithstanding these specific names or specific stores, sold by defendants, *plaintiff produced no evidence of a single sale to any one of these stores during the two year period preceding trial of the case,* or at any earlier period, except a few sales to the May Co. eleven years ago.

Furthermore, it is apparent from the evidence that plaintiff's dresses are sold to shops in California and elsewhere, which "appeal to the more mature woman"; *not* to women's apparel stores which "cater to the younger element" [R. Tr. 181, 182].

We, therefore, submit plaintiff's contention of "sales to the same stores" during the entire period of the parties' concurrent operations is totally without support in the evidence. In this connection, defendants are entitled to the presumption that since it was within plaintiff's power to produce evidence of sales to the same stores named by defendants, plaintiff's failure to produce such evidence must be construed as an admission that plaintiff does *not* sell to any of the stores named by defendants (See California Code of Civil Procedure, Sec. 1963, Secs. 5 and 6; 30 Cal. Law Review 79; *Smith v. Bert M. Morris Co.,* 131 Cal. App. 2d Supp. 871).

POINT II.

Plaintiff Erroneously Contends That the Surname "Sachs" Is the "Dominant" or "Primary" Portion of Its Trade-Marks. Plaintiff Pays Only Lip Service to Patent Office Decisions and to the Rule That Its Three-Word Trade-Marks Must Be Considered "in Their Entirety".

Throughout its brief plaintiff repeatedly refers to its trade-marks as though they comprised only the single surname "Sachs" or at most "Paul Sachs" and "Don Sachs". The fact is that plaintiff registered and uses a *three-word trade-mark,* "Paul Sachs Original" [see Exs. 1, 3 and 5 attached to the complaint]; and although plaintiff actually registered only the two-word trade-mark "Don Sachs", the uncontradicted fact is that plaintiff has constantly and continuously used and advertised its second trade-mark as consisting of three words, "Don Sachs Original" [Pltf. Exs. 2, 4, 11, 12, 13, 51, 54, 55-62].

Plaintiff's claim of infringement is solely predicated upon the assertion that the surname "Sachs" is the "dominant" part of plaintiff's trade-marks. There is no basis for such a contention by plaintiff. The surname "Sachs" is not written in larger or bolder face type than the first name "Paul" or "Don". In every case the words "Paul Sachs" and "Don Sachs" appear in identical size and type. In many instances all three words "Paul Sachs Original" and "Don Sachs Original" appear in identical size and type in printed advertisements. Plaintiff's own exhibits clearly evidence the use of all three words in all advertising matter issued or paid for by plaintiff [see Exs. 7, 8, 9, 10, 11, 12, 13, 15, 16, 18, 19, 20, 21, 22, 23, 25, 26, 27, 28, 29, 30, 32A, 32B, 32C, 33, 34, 36, 38, 49, 51, 72, 73, 74A, 74B, 75A and 75B]. The only exceptions appear in certain advertisements when the word *"Original"* is written in script instead of block letters, as in the case of the "Paul Sachs *Original*" labels attached to the complaint [*e.g.* Exs. 1 and 3]. If any special emphasis or importance is laid upon any particular word in the trade-marks as used by the plaintiff, the single word *"original"* alone qualifies, because it is written either in block letters or in script for the obvious purpose of attracting special attention to it. At no time in no manner is the word "Sachs" alone singled out for special attention by size, color or any other differentiation from the balance of the trade-mark, *i.e.*, the Christian name "Paul" in "Paul Sachs" or "Don" in "Don Sachs".

The legal significance of this point cannot be overestimated. Plaintiff *concedes* in its brief that the Trade-Mark Act of 1946 would have prevented the registration of a surname which is "primarily merely a surname" (15 U. S. C. 1052 (e)(3)), unless the surname alone had "become distinctive of a party's goods" and was therefore registrable under 15 U. S. C. 1052(b) (See App. Op. Br. p. 51).

No evidence whatever was offered by plaintiff that the single surname "Sachs" had ever at any time been utilized in advertising, labels, or otherwise, to distinguish plaintiff's goods. The District Court, therefore, correctly found that there were no circumstances existent in the instant case in which the surname "Sachs" alone could have been registered by plaintiff:

> "It should be noted that this is a surname such as would not alone be accepted for registration" [R. 48].

Appellant next relies upon "common customs and practices" to establish dominance of the surname "Sachs", claiming dominance is "not determined altogether by the manner of presentation" (App. Op. Br. p. 51). Unfortunately for appellant, it established no custom or practice on the part of the buying public to identify either plaintiff or its products by the single word "Sachs". In fact, most of the witnesses who testified at the trial had never heard of the plaintiff corporation *or* its products—much less any popular shortened identification, such as it now seeks to analogize, *e.g.,* Macy's, Wanamaker's, Tiffany's, Stetson's, etc.

Although appellant argues that "Sachs" is "the dominant portion of appellant's trade-mark" (App. Op. Br. p. 48), it does not contend the decision of the District Court to be in any way contrary to the evidence in its express finding that the word "Sachs" was *not* dominant. In fact, appellant *concedes:*

> "The District Court found as a fact that the word 'Sachs' in appellant's trade-marks had not been given any emphasis or dominance over the Christian portion of the marks, namely, 'Paul' and 'Don', as both names had been set forth in the same style and letter as the surname [R. 36]."

No useful purpose is served by appellant in referring to trade-mark cases in which only a *one-word name* was registered or in which a single word dominated all labels and advertising. Where the trade-mark registered by a plaintiff contains a single dominant word which is the primary element advertised to the general public, it is quite true that subsequent users cannot take such dominant single-word element from the trade-mark, "palm off" the subsequent product, and exonerate the fraudulent misappropriation of the dominant word of the trade-mark by adding descriptive words. Typical of such cases is the *Brooks* case, 60 Fed. Supp. 442 (cited ten times in appellant's opening brief); the *Safeway* case, 172 F. 2d 649; the *Swarthmore* case, 81 Fed. Supp. 917; the *Dunhill* case, 44 Fed. Supp. 922; the *Kent* case, 309 F. 2d 775; the *Loraine* case, 88 Fed. Supp. 634; the *Fancee Free* case, 148 Fed. Supp. 845, and many of the other cases cited in appellant's brief.

The point of departure between appellant's cases and its argument is that the single word "Sachs" was never registered nor utilized by itself; it never appears alone in any of plaintiff's labels or advertising; it is a surname which is invariably combined with either the Christian name "Paul" or "Don" in the same size of lettering, color, printing, etc.

The test of whether a surname is or is not the primary or dominant part of the trade-mark has long been established in the Patent Office and has been the subject of several decisions—all holding that when a Christian name is registered with a surname, both being given equal emphasis, size and lettering, neither the Christian name nor the surname are to be considered dominant; and registration will be freely given to a subsequent applicant who utilizes a *different* Christian name with the *same* surname.

The Patent Office is most careful to distinguish between the trade-mark which is *in fact* primarily a surname and the trade-mark which is *not* dominated by the surname, because it also includes a Christian name of the same size and style.

In *Ex parte Andre Julian Dallioux* (1949), 83 U. S. P. Q. 262, the trade-mark "Andre Dallioux" was held registrable because the mark consisted of both a Christian name and a surname, neither of which was dominant. The Commissioner of Patents in the *Dallioux* case clearly stated the opinion of the Patent Office that a surname "dominates" the trade-mark only under the following circumstances:

> "In the event the surname was *unduly emphasized* or otherwise constituted *the only significant part of the mark,* thereby amounting to 'a mere device or contrivance to evade the law and secure the registration of non-registrable words . . .' " (83 U. S. P. Q. 262).

In the District Court, the *Dallioux* case was referred to by plaintiff as "controlling authority" (Plaintiff's Trial Brief, p. 2). It is important to note that the Examiner's refusal to register the mark originally was based upon his decision that the "surname was the dominant feature of the mark and that the mark accordingly is 'primarily merely a surname' and as such should not be registered in view of section 2(e) of the Trade-Mark Act of 1946" (83 U. S. P. Q. 262). It was this decision of the Examiner which was reviewed and *reversed* by the Commissioner of Patents, who thereby established the rule that when a surname is used with a Christian name in a trade-mark the surname is *not* deemed to be "primary" or "dominant" unless "*unduly emphasized* or otherwise constituted the only significant part of the mark" (83 U. S. P. Q. 262).

For purposes of comparison, see those decisions holding initials insufficient to prevent the trade-mark from being "dominated" by, or to be "primarily" a surname (*E.g., Sears, Roebuck and Co. v. Watson,* 96 U. S. P. Q. 360, 204 F. 2d 32, holding "J. C. Higgins" was "primarily merely a surname" and therefore rejecting registration on that ground.

Text writers have repeatedly referred to the *Dallioux* case as authority for the proposition that the use of a Christian name with a surname will normally be registrable upon the basis that the trade-mark is *not dominated by the surname* and is therefore not within the prohibition of the Act against registration of a trade-mark which is "primarily merely a surname".

Toulmin, *Trade-mark Handbook* (1957), section 2, page 30:

> " 'Andre Dallioux' was held registrable. It was indicated such a mark might be *un*registrable, however, if the surname *dominated* it." (Emphasis ours)

At page 32:

> "Where a surname dominates a mark the mark is unregistrable even where there are initials or a given name appended to the surname."

Vandenburgh, *Trade-mark Law and Procedure* (1959), page 82:

> "A composite mark that includes a surname that is not dominated by the surname is not rendered unregistrable by reason of the inclusion of the surname since it is not 'primarily merely a surname'." (Citing *Ex parte Norquist Products, Inc.,* 109 USPQ 399 (1956), and *Ex parte The B. F. Goodrich Company,* 89 USPQ 283 (1951).

In *Ex parte The B. F. Goodrich Company,* 89 U. S. P. Q. 283 (1951), the Commissioner of Patents *reversed* a ruling of the Examiner that the word "Goodrich" was dominant in the trade-mark, stating at page 284:

> "I do not think that the examiner is justified in the present case in dissecting the applicant's composite mark and selecting a subordinate part which is a surname as a basis for refusing registration under section 2(e) of the Act of 1946."

In *Ex parte Perregaux* (1955), 106 U. S. P. Q. 206, registration of a trade-mark "Girard Perregaux" had been issued May 24, 1938, for watches and watch movements. Application was filed to register "Paul Perregaux" for watches in 1952. Upon appeal to the Commissioner of Patents from a denial of the latter's application on the ground of likelihood of confusion with a prior trade-mark, the Commissioner of Patents granted registration upon the ground that there was *no likelihood of confusion,* stating at page 207:

> "The only similarity between 'Paul Perregaux' and 'Girard Perregaux' is in the second component, which, as stated, is the applicant's surname.

> "Considering the circumstances surrounding the purchase of watches, the impressions created by the marks—one being more likely to be considered as a combination of surnames and the other the name of an individual—and the more recent decisional law (David & John Anderson, Ltd. v. Anderson Textile Mfg. Co., Ltd., 81 USPQ 541 [Com'r., 1949]; J. Markowitz & Son, Inc. v. Sally Mason, Inc., 72 USPQ 341 [S.D. N.Y., 1947]; Buddy Lee, Inc. v. Lee Ray Men's Wear, Inc., 89 USPQ 555 [N.Y. Sup. Ct., 1951], I am unable to find, on this record, any likelihood of confusion."

See also:

Ex parte Riviera Watch Corporation, 106 U. S. P. Q. 145 (1955);

Ex parte Kimberly-Clark, 83 U. S. P. Q. 437 (1949);

Ex parte Reeves Brothers, Inc., 84 U. S. P. Q. 19 (1949).

Plaintiff quite properly contended in the District Court that "the Courts should not overrule the action of the Patent Office" (Pltf. Br. p. 2), and in its Opening Brief in this Court, appellant concedes the importance of decisions of the United States Patent Office:

> "Although not bound, it is believed that this Court will note with interest rulings of the United States Patent Office with respect to trademarks, in view of the acknowledged expertise of the Patent Office in such matters" (App. Op. Br. p. 45).

This Patent Office construction of the Trade-Mark Act of 1946 is completely consistent with the line of judicial decisions squarely holding a trade-mark must be considered "as a totality" or "*in its entirety*"—without dissection and without placing special emphasis upon a single word, part or portion of the composite trade-mark. In *Nestle Milk Products v. Baker Importing Co.,* 182 F. 2d 193 (1950), the Court expressly refers to the necessity that the marks be "*considered in their entireties*". The same rule is stated in *Societe Anonyme, etc. v. Julius Wile Sons & Co.,* 161 Fed. Supp. 545, 547 (1958):

> "The ordinary buyer does not stop to dissect the marks and analyze their component parts; if he is deceived it is attributable to the *mark as a totality and not normally to any particular part of it.* Syncromatic Corp. v. Eureka Williams Corp., 7 Cir., 174 F. 2d 649, 650, certiorari denied, 1949, 338 U.S. 829, 70 S. Ct. 79, 94 L. Ed. 504." (emphasis ours).

Appellant belatedly *concedes* that the single surname "Sachs" is *not* the dominant element of its trade-mark, when it contends:

> "Hence, the District Court should have at least found Paul Sachs and Don Sachs to be the dominant portions of appellant's trademark if only from an appearance standpoint" (App. Op. Br. p. 49).

Finally, appellant contends that the word "*Original*" which is part of its trade-mark "Paul Sachs *Original*" and which is imprinted on every label of "Don Sachs *Original*" (including all labels filed in the Patent Office in connection with each application for registration) is so "commonplace" as to have no trade-mark significance of any nature.

We are at a loss to follow appellant's argument. The trial court did not consider or find the word "Original" to be "the dominant portion" of either of plaintiff's trade-marks. It *did* find the word "Original" to constitute "*an element* of each of appellant's trademarks" [R. 36-37]. Having registered the entire term "Paul Sachs Original" as its trade-mark, and having continuously utilized all three words on labels and advertising, and having followed the same practice in connection with "Don Sachs Original", appellant certainly cannot and does not contend lack of evidence to support the finding of the trial court that the word "original" is "an element" of each trade-mark. The importance of such element may be large or small depending upon the psychological reaction of the purchaser. In no event can it be "totally disregarded".

Decisions of the Patent Office denying registration to a subsequent applicant who precisely duplicated both sound and appearance of a trade-mark but who contended the addition of the word "Original" *distinguished* and *excused* misappropriation of the registered trade-mark are not in point. For example, "Julette Originals" was rejected because of the prior registration of "Juliette": "applicant's proposed trademark is dominated by the word 'Julette'" (*Ex parte Julette Originals,* 74 U. S. P. Q. 211, quoted in appellant's opening brief, p. 45); "La Roy Originals" was rejected because it was "the same in sound and in commercial impression" as "Le Roi" (*Le Roi Hosiery Co., Inc. v. Champion,* 114 U. S. P. Q. 135, quoted in appellant's opening brief, p. 46); "*another* Miss Connie Original" was rejected because it misappropriated plaintiff's single name trade-mark "Connie" (*Wohl Shoe Co. v. Elder,* 90 U. S. P. Q. 144).

Appellant next argues that the word "original" is not important to appellant's trade-mark because appellant failed to use the words "on various occasions":

> "The lack of importance of such word to appellant and its non-reliance thereon for purposes of distinction is evidenced by its failure to use such word in either its trade-mark or its corporate name on various occasions" (App. Op. Br. p. 47).

The "various occasions" referred to by appellant are *minimal* in view of the fact that almost 100 exhibits offered by plaintiff and received in evidence contain the word "original", either in the same capital letters as "PAUL SACHS" and "DON SACHS" or in large script or italics emphasizing such word. In fact, to paraphrase appellant's argument, the "importance of such word to appellant" and its absolute "reliance thereon for purposes of distinction" is abundantly demonstrated by the multiple advertisements received in evidence in which the words "Paul Sachs Original" and "Don Sachs Original" appear in identical size and type [*e.g.,* Pltf. Exs. 8, 9, 18, 19, 20].*

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*Plaintiff's argument is misleading that Exhibits 10, 11, 12, 13, 25-30, inclusive, 32, 33, 34 and 53A to 53F reflect plaintiff's "failure to use such word ["original"] in either its trademark or its corporate name" (App. Op. Br. p. 47). Although there appear to be no exhibits numbered and lettered 53A to 53F, the most cursory examination of the exhibits enumerated by plaintiff clearly reflects the fact that the word "original" *is used* together with the words "Paul Sachs" or "Don Sachs" as part of the trade-mark in Exhibits 10, 11, 12, 13, 25, 26, 27, 28, 29, 30, 32, 33 and 34 and such word *is also used as part of the corporate name* in Exhibits 10, 11, 12 and 13. Although plaintiff apparently elected to abbreviate its corporate name on its mailing address in Exhibits 25-33, inclusive, such exhibits included all three words "Paul Sachs Original" and "Don Sachs Original" as its advertised trade-marks.

In view of the evidence produced by plaintiff itself demonstrating its utilization and emphasis of the word "original" upon all its labels and virtually all its advertising, plaintiff is in no position to object to the finding of the trial court that the respective names "Paul Sachs *Original*" and "Don Sachs *Original*" each constituted "a single integrated trade-mark" [R. 37]. Plaintiff does not set forth at any point in its brief the entire findings of fact made by the trial court on this point and we therefore quote *verbatim* from the "Memorandum of Decision" [R. 36-37].

> "In registering the trademark, 'Paul Sachs Original' plaintiff disclaimed the word, 'Original', in the following words, 'no exclusive claim being made to the word "Original" *apart from the mark as shown and described.*' (See Exhibit 1, emphasis added.) *By disclaimer, the word was not eliminated from the trademark.* As a consequence of having disclaimed the word 'Original' in the 'Paul Sachs Original' trademark and not having claimed the word at all as a part of the trademark registered as No. 708,120, plaintiff has chosen to ignore the existence of this word as a part of its trademark and has organized its case as though this word should be totally disregarded.
>
> "The argument then proceeds to assert that the surname, 'Sachs' is dominant in each mark and that the word, 'Sachs' is also dominant in 'Sachs in California' and, therefore, there is likelihood of confusion.
>
> "The Court finds as a fact that the word 'Sachs' in plaintiff's trademark 'Paul Sachs Original' has never been given any emphasis or predominance

over the Christian name 'Paul' and both names have always been depicted and used in the same style, size, color, lettering and appearance as the name 'Sachs'. Both names have always been given equal importance and have been displayed and shown together, which, with the addition of the word 'Original' have invariably been displayed and shown together as a single integrated trade name and trademark and substantially every use and advertisement has utilized all three words, 'Paul Sachs Original'.

"The same is true of the trademark 'Don Sachs Original'. The surname 'Sachs' in the trademark has never been given any emphasis or predominance over the Christian name 'Don' and both names have always been depicted and used in the same style, size, color, lettering and appearance with both names given equal importance. *Both names have invariably been displayed and shown together and with the word 'Original' following so that the two names and the word 'Original' have constituted a single integrated trademark."* (Emphasis ours).

The findings and conclusions of the trial court are clearly correct and abundantly sustained by the evidence.

The following cases are illustrative of the innumerable decisions in which courts have applied the rule that the trade-mark must be considered "in its entirety" and that a single identical word or portion of the trademark will *not* be held to be "dominant" so as to confuse a purchaser *in the absence of special emphasis in* *size, color or appearance upon the word of term claimed to be dominant.*

Maas and Waldstein Company v. American Paint Corp., 178 F. Supp. 498 (1959) ("Plextone" held not infringed by Flexitone");

Nebraska Consolidated Mills Co. v. Shawnee Milling Co., 198 F. 2d 36 (1952) ("Mother's Best" held not infringed by "Mother's Pride");

Eastern Wine Corp. v. Winslow-Warren, Ltd., 137 F. 2d 955 ("Chateau Martin" held not infringed by "Chateau Montay");

Seven Up Co. v. Cheer Up Sales Co., 148 F. 2d 909 ("Seven Up" held not infringed by "Cheer Up");

Avrick et al. v. Rockmont Envelope Co., 155 F. 2d 568 (1946) ("Sky-Rite" held not infringed by "Sky Mail");

Miles Laboratories, Inc. v. Henry J. Frolich, 195 F. Supp. 256 (1961) ("Alka Seltzer" held not infringed by "Milk-O-Seltzer");

Vita-Var Corp. v. Alumatone Corp., 83 F. Supp. 214 (1949) ("Alumikote" held not infringed by "Alumatone");

Dietene Co. v. Dietrim Co., 121 F. Supp. 785 (1954);

Solventol Chemical Products v. Langfield, (CCA 6) 134 F. 2d 899, 903 (1957) ("Solventol" held not infringed by "Solvite");

Curtis-Stephens-Embry Co. v. Pro-Tek-Toe, 199 F. 2d 407 (1952) ("Pro-Tek-Tiv" held not infringed by "Pro-Tek-Toe");

Ansco Photo Products, Inc. v. Eastman Kodak Co., 19 F. 2d 720 ("Speedex" held not infringed by "Speedway");

Nestles Milk Products v. Baker Importing Co., 182 F. 2d 193 (1950) ("Nescafe" held not infringed by "Hycafe").

POINT III.

The Trade-Mark Act of 1946 Has Not Enlarged Plaintiff's Scope of Protection or Substantive Rights. The "Incontestability" Clause Does Not Preclude a Defense of Non-Infringement.

Plaintiff implies that the incontestability clause of the Trade-mark Act of 1946 has in some manner enlarged the scope and protection available to plaintiff's marks and that the incontestability clause, in effect, precludes the defense of non-infringement and conclusively establishes secondary meaning (App. Op. Br. pp. 71-73).

There is no legal basis for such a contention. In *Faciane v. Starner,* 230 F. 2d 732, the Circuit Court of Appeals for the Fifth Circuit ruled *adversely* to this same contention, stating at page 738:

> "Appellant claims that the Lanham Act is more favorable to him and that, under the terms of that Act, he was entitled to relief under the proof made by him in the Court below.
>
> "Substantially all which has been said, supra, concerning common law actions for unfair competition applies equally to this portion of the opinion. The rule is well stated in 87 C.J.S., Trade-marks, etc., §169, pp. 495-500: '*Registration of a trade-mark confers only procedural advantages and does not enlarge the registrant's substantive rights.*'" (Emphasis ours.)

Notwithstanding plaintiff's argument and contention that it has the exclusive right to use the surname "Sachs" because of the incontestability section of the Lanham Act, we submit that the only "exclusive" and "incontestable" right of plaintiff is to use its three-word trade-marks "Paul Sachs Original" and "Don Sachs Original". Defendants do not contest this so-called exclusive right and the trial court did *not* "indicate its doubts as to the validity of appellant's marks" or "the protection to which they are entitled" (App. Op. Br. p. 72). The incontestability clause could only be invoked as against persons claiming such three-word trade-marks to be "invalid" and asserting such third party's right to use the identical mark. No such contention arises in this case. We are *not concerned* with a situation of *conflicting identical trade-marks.* We contend that defendants' trade name, "Sachs of California", is with the exception of one word, *different* from and *dissimilar* to plaintiff's three-word trade-marks, and that there is no "confusing similarity" between plaintiff's trade-marks and defendants' trade name (see Point VI, *infra*).

Notwithstanding the stress laid by plaintiff upon other points in its brief, plaintiff *concedes* the "cardinal issue in this cause" is whether concurrent use of the trade-marks of the parties is likely to cause "confusion or mistake or deception among retail customers as to the source of origin of the goods" (Pltf. Op. Br. p. 12).

Plaintiff's point of incontestability is, by its own statement of issues, wholly irrelevant.

POINT IV.

Registration of a Surname Which Does Not Stand Alone as the Dominant Part of a Trade-Mark Cannot Preclude Another From Honestly and in Good Faith Using His Personal Name in His Own Business.

We have just shown that registration under the Trade-Mark Act of 1946 did not enlarge plaintiff's "substantive rights"; but that common law principles of unfair competition are applicable in determining whether or not trade-mark infringement has occurred through likelihood of confusion or deceit of purchasers as to source of origin (Point III, *supra*).

A. The Common Law Is That a Man May Use His Own Surname in His Own Business, if He Uses It in Good Faith and Does Not Deceive the Public Thereby.

The test is whether the use of the defendants' name is "reasonable, honest and fair", and whether, either in intention or result, a fraud will be practiced upon the public. Our Supreme Court in *Brown Chemical Co. v. Meyer,* 139 U. S. 540, 11 S. Ct. 625, laid down the rule at page 626:

> "It is hardly necessary to say that an ordinary surname cannot be appropriated as a trade-mark by any one person *as against others of the same name who are using it for a legitimate purpose.*"

In *Thaddeus Davids Co. v. Davids,* 233 U. S. 461, 34 S. Ct. 648, 651-652 the United States Supreme Court stated:

> "It is apparent that, with respect to *names* or terms coming within this class, *there may be proper use by others than the registrant, even in*

connection with trade in similar goods. It would seem to be clear, for example, that the registration for which the statute provides was *not designed to confer a monopoly of the use of surnames,* or of geographical names, as such. It is not to be supposed that Congress intended to prevent one from using his own name in trade, or from making appropriate reference to the town or city in which his place of business is located."

The same rule has been stated and applied in California. See *Tomsky v. Clark,* 73 Cal. App. 412, 418:

> "As just stated, equity will not allow a person to resort to artifice or contrivance in the use of his name as a result of which the public is deceived as to his business or products. But in such case it is not the use of a man's own name that is condemned, it is the *dishonesty* practiced in the use of it (citing cases). *Where it appears, however, as it does here, that the party sought to be enjoined has a right to use his own name and he does so reasonably and honestly, he is not obliged to abandon the use thereof or to unreasonably restrict it, whether used in a firm or corporation, merely because some confusion may have arisen from similarity of names."* (Emphasis ours).

B. The General Rule Is That a Personal Surname Is in the Same Classification as Any Descriptive or Geographical Term as to Which a Strong Public Policy Precludes Monopoly.

As stated by Vanderburgh, *Trademark Law and Procedure* (1959), at page 80:

> "Like the situation with respect to descriptive and geographical marks as non-distinctive marks,

the placing of surnames in that category has a public policy background. This public policy stems from the belief that everyone is entitled to use his own name in connection with and to identify his business. The rule is applicable whether a person is doing business as an individual, a partnership or a corporation."

It should furthermore be noted that an individual's right to do business under his own name is more extensive than his right as stockholder, officer or director to permit a corporation to use his surname as a part of the corporate name or trade-mark. Even cases finding corporate infringement have noted this distinction. So, in *Brooks Bros. v. Brooks Clothing of California,* 60 Fed. Supp. 442, the court stated at page 449:

> "A person has an inherent right to use his name in his business. And this right is recognized in the law of New York and of California, and by federal courts in cases involving trademarks and unfair competition. . . .
>
> "So, at the outset, we are confronted with the situation that the defendant has no natural right to the use of 'Brooks' in its corporate name or its business. No man of that name has ever been connected with it. It adopted the name as a convenience. Consequently, as to it, the *plaintiff's rights are not even circumscribed as they would be, if dealing with a business using the family name of a natural person who is connected with it."* (Emphasis ours).

Similarly, in *Everest & Jennings, Inc. v. E. & J Manufacturing Co.*, 263 F. 2d 254 (1959), the court said at page 259:

> "Everest & Jennings, Inc., is an arbitrary name selected as the name of a corporation and, as such corporation, is not entitled to the same equitable considerations as an individual using his own name. . . . *The mere fact a corporation is using the name of one of its shareholders does not confer the same rights the shareholder might have to the use of his own name.*"

We fully recognize the rule that not even an individual can use his own name in such a manner as to cause confusion or deceive the public, but it is clear from the foregoing authorities that the individual who is honestly doing business under his own name, whether individually or as a general partner, is entitled to substantial equitable considerations which do not pertain to corporations utilizing the name of an officer or stockholder, and the strongest public policy considerations further fortify defendants' position in this case that plaintiff should not be granted a monopoly upon the surname "Sachs", to the exclusion of every person in the country who desires to use that surname in his own business.

Plaintiff's assertion (App. Op. Br. p. 49) of its right to "develop a family of related trade-marks" to which new members of this family may be added at will is sufficiently indicative of its intention to assert monopolistic privileges directly contrary to the public policy against such monopoly with respect to the use of personal surnames. If plaintiff's contentions be sustained in this case, it will be free to add the defendant's entire name "John Sachs" as the next member of its "family."

C. Plaintiff's "Surname" Cases, When Carefully Analyzed Upon Their Individual Facts, Each Apply the Same Common Law Principles to Trade-Mark Infringement.

In *Faciane v. Starner* (C. C. A. 5), 230 F. 2d 732, the court held the same common law principles of law applicable to cases arising under the Trade-mark Act of 1946 as in cases of ordinary unfair competition, wherein the "usual concomitants" were held to be:

> "*Simulation* by defendant of the name, symbols or devices of plaintiff, with the object of inducing purchase of his merchandise under the *false impression* that it originated with plaintiff; attempt by defendant to '*palm off*' his products as those of plaintiff; practices designed to *pirate* the trade of plaintiff; the employment of imitative devices to *beguile* patrons to purchase defendant's food rather than plaintiff's; or the *use of any other means incompatible with concepts of common business integrity*. The evidence fails to show that defendant had ever indulged in any of those practices, innocently or otherwise." (230 F. 2d 732, 737).

It is important to distinguish the general rule that a man can use his own name in his own business from the exceptional use for fraudulent purposes which may limit or restrict that right. In the trial court Plaintiff conceded (Br. p. 7) that "those cases are not pertinent here" in which a surname has been adopted in an individual's own business "for the express purpose of trading upon the established goodwill of another". Notwithstanding this concession plaintiff primarily relies upon *Brooks Bros. v. Brooks Clothing of California,* 60 Fed. Supp. 442, affirmed 158 F. 2d 798, which plaintiff cites at least ten times in its opening brief. In the *Brooks* case, the trial court found *deceit* and *deliberate intent to "palm off"* defendant's goods as plaintiff's goods. The *Brooks* decision can best be understood by noting the following distinctive facts:

1. The defendant's name was not "Brooks" but was "Greenberg".

2. Defendant's registered name was "Brooks Clothing of California"; but in a deliberate effort to unfairly compete with the plaintiff, defendant *omitted* the words "Clothing of California" from its title, and upon all advertising and store signs in every state in the United States. The court expressly found "the *defendant long ago abandoned all the words of its title except 'Brooks'* in all its methods of seeking custom." (60 Fed. Supp. 442, 453).

3. The name "Brooks" as used by defendant was not intended to identify any person connected with the manufacture, sale or distribution of defendant's merchandise.

4. Defendant advertised in newspapers and upon radio solely under the name "Brooks", with the definite intention of misleading the public into believing identity existed between plaintiff and defendant, and confusion was expressly found by the court to have been generated by such misleading and false advertising (60 Fed. Supp. 442, 452-453, 455-458).

5. The word "Brooks" had become a national "household word" identifying the plaintiff's products, before defendant adopted the name and utilized it in direct competition, the court stating:

> ". . . the word 'Brooks' alone, without the 'Brothers', came to be the identification mark of the plaintiff and its clothes. In fact, it is shown that in certain literary works of the middle of the century, characters were referred to as being 'Brooks' tailored or clad in 'Brooks' models" (60 Fed. Supp. 452).

In the instant case, no such public identification was pleaded or proved in connection with "Paul Sachs Original". The name "Sachs" is *not* a household word, nor can it be considered a synonym for women's clothing, as was found to be the situation in the *Brooks* case, comparable to the name "Tiffany" for jewelry; "Waterman" for fountain pens; or "Stetson" or "Dobbs" for hats. The *Brooks* case is, therefore, clearly distinguishable.

In *Hat Corporation of America v. D. L. Davis Corporation,* 4 Fed. Supp 613 (1933), 19 U. S. P. Q. 210, another case relied upon by plaintiff (App. Op. Br. p. 76), the name "Dobbs" was also held to have become a household word, Dobbs hats having been widely sold in the United States since 1908, with gross sales aggregating $28,000,000. The court found that the name "Dobbs", like "Stetson", had become identified in the public mind and the purchasing public by its trademark "Dobbs" and that the subsequent adoption of the name "Wm. H. Dobbs" was confusing and deceptive to the general public, particularly since the initials "Wm. H." were subordinated in advertising, the Court stating:

> "The evidence was that the *plaintiff's advertising has emphasized the surname only.*"

Celeste Frocks v. Celeste of Miami, Inc., 150 Fed. Supp. 604, cited and quoted by plaintiff three times in its Opening Brief is similarly distinguishable because the court expressly found each of the following facts in such case:

1. The defendant's trade-mark was "practically the same label as the trade-mark of the plaintiff".

2. The script writing of the name "Celeste" as employed by the defendant was "similarly styled to the signature shown on the plaintiff's trade-mark and trade name".

3. "Defendant's use of the said name, trade-mark and signature is calculated to cause, and has caused, and does now cause, confusion in the trade and in the public mind respecting the source of manufacture of the merchandise of the respective parties hereto".

None of the major elements controlling the *Celeste Frocks* decision are present here. It does not appear that the words "of Miami" were placed on defendant's dress label because the latter is referred to as *"practically the same label as the trade-mark of the plaintiff",* and the court expressly found that the script writing of the name "Celeste" was "similarly styled" as was its "signature". In the instant case, mere inspection of the labels utilized by plaintiff and defendants shows substantial and obvious differences in color, appearance and context.

No reasonable buyer would normally believe that a "Paul Sachs Original" dress manufactured by Paul Sachs Originals Co., a Missouri Corporation, was a dress in fact manufactured by "Sachs of California", or vice versa. On the contrary, inclusion of defendants' place of manufacture, to wit, California, points up a major difference between defendants' casual sportswear goods manufactured in California and the more formal, higher priced "Originals" manufactured by plaintiff in Missouri.

In *Richard Hudnut v. DuBarry of Hollywood, Inc.*, 127 U. S. P. Q. 486, cited three times in Appellant's Opening Brief, the trade-mark infringement was plainly held to be the result of deliberate fraud, misleading advertising and confusion. The facts of the case showed that plaintiff had registered and utilized the trade-mark "DuBarry" for more than 60 years; $370,-000,000 worth of its products had been sold in the United States; $55,000,000 had been spent in advertising during the last 25 years, and a large number of products were manufactured by it in the soap, perfume and cosmetic business. Defendant "DuBarry of Hollywood, Inc." was incorporated by four persons respectively named John Ishkanian, Arnold Colt, Ann Glatzer and Sara Grossman. The court found at page 487:

> *"No one bearing the surname 'DuBarry' was ever an officer, director or employee of the defendant corporation.*
>
> * * *
>
> "The defendants' products and trade paper advertising are conspicuously labeled with the trade-mark and trade name 'DuBarry' . . . often *printed in substantially the same script type in which it is*

> *displayed by the plaintiff;* defendants' trade-mark and trade name *'DuBarry' is often accompanied by the representation of a crown similar to that used by the plaintiff;* and it is also frequently used in conjunction with the words *'famous', 'genuine', 'original'.* Plaintiff is the only 'genuine', 'original', 'famous' DuBarry company and defendants' characterization of itself by these words *falsely represents* that it is the plaintiff." (Emphasis ours)

Plaintiff also refers to *Sullivan v. Ed Sullivan Radio and T. V. Inc.* (1956), 1 App. Div. 2d 609, 110 U. S. P. Q. 106, which is simply another example of applying common law rules of protection against fraud and deception. The plaintiff Ed Sullivan had been nationally known for 20 years, appearing in widely syndicated columns throughout the country and before audiences estimated at over 50 million on his television program "The Ed Sullivan Show" which was broadcast in Buffalo, New York, over the facilities of station WBEN-TV. He had commercially exploited the good will attached to his name by endorsing particular brands of television sets and intended "to continue making such endorsements". Defendant engaged in the business of selling radio and television sets in Buffalo, New York, under the name "Ed Sullivan Radio and T. V. Inc." The court held at page 106:

> ". . . it is undisputed that the name 'Ed Sullivan' is automatically identified by the general public with appellant *alone,* insofar as radio and television are concerned." (Emphasis the Court's).

In *Harvey Machine Co., Inc. v. Harvey Aluminum Corp.* (1957), 9 Misc. (N. Y.) 2d 1078, 113 U. S. P. Q. 437, cited in plaintiff's brief, the plaintiff corporation had been engaged in business under the name of "Harvey Machine Co" since 1916; had done business under the name of "Harvey Aluminum" since shortly after 1942, and in 1952 had incorporated "Harvey Aluminum Sales, Inc.", the gross sales aggregating $21,000,000 annually. In 1951 the defendant Harvey Richter incorporated "Harvey Machine Shop Specialists, Inc.", and in 1953 "Harvey Aluminum Corporation". The court enjoined the use of both names, stating at page 438:

> "Defendants have adopted and are using corporate names closely similar to plaintiffs' names and mark. *Such use has resulted in deception and confusion*". (Emphasis ours).

Both the *Sullivan* and *Harvey* cases thus reflect actual "palming off" with positive evidence in the *Harvey* case of resulting "deception and confusion". No such evidence appears in the case at bar.

In *Chester Barrie, Ltd. v. Chester Laurie, Ltd.,* 189 Fed. Supp. 98 (repeatedly cited in App. Op. Br. pp. 24, 39, 56, 72, 76), the defendant Samuel Kozinsky was not using his own personal surname but deliberately adopted a corporate name, Chester Laurie, Ltd., similar to plaintiff's name, Chester Barrie, Ltd., *for the purpose of "simulating plaintiff's trade-mark"*. The court found as a fact this evidence of *defendant's intention "to appropriate a competitor's customer" and "to trade on his good will"* (189 Fed. Supp. 102). The court furthermore found "evidence of actual confusion among persons engaged in the retail clothing business" (189 Fed. Supp. 102).

In *Kay Dunhill, Inc. v. Dunhill Fabrics,* 44 Fed. Supp. 922 (quoted in App. Op. Br. pp. 32, 41, 49, 68), plaintiff was originally incorporated as Dunhill Frocks, Inc., and later changed the name to Kay Dunhill, Inc., the latter name being trade-marked. Separate Kay Dunhill departments existed in 23 different stores throughout the country, with substantial advertising in fashion magazines and daily newspapers and on radio. Although manufacturing dresses, plaintiff gave names to the fabrics purchased by it which were generally associated with, and included all or part of its trade name. Defendants also manufactured fabrics to which they attached the name "Dunhill" and selected names for their fabrics which were comparable to the fabric names selected by plaintiff. Stores which purchased dresses manufactured from defendants' fabrics advertised such dresses in such a manner as to cause confusion in source and origin, the court stating at page 927:

> "I regard the inference as inescapable that defendant was the origin of the statements contained in the advertisements as to what were the fabrics from which the dresses were made. Moreover, as I see it, the advertisements were capable of being interpreted as meaning to say, and were *designed to convey the impression,* that the dresses had been manufactured by a concern having the word 'Dunhill' in its name, *without giving the complete or exact name."* (44 Fed. Supp. 927).
>
> * * *
>
> "Plaintiff suffered injury because in the market purchasers of dresses were either *misled* into believing that dresses produced from fabrics of defendant had been manufactured by plaintiff or were *confused* on the subject or that, by means of hang tags or advertising or by other means emanating

from and resulting from conduct of defendant, dresses made from fabrics of defendant were sold or *palmed off as dresses made by plaintiff.*" (44 Fed. Supp. 929, emphasis ours).

In *Williamson-Dickie Manufacturing Co. v. Davis Manufacturing Co.,* 251 F. 2d 924 (quoted four times in App. Op. Br.), plaintiff sued for infringement of his trade-mark "Dickie's" caused by defendant's confusing use of the name "Dickie Davis", both names being used on boys' clothing. Apparently, the major defenses asserted unsuccessfully in that case were that plaintiff's trade-mark was invalid and that "Dickie" was "primarily merely a surname". The court held that "Dickie" was "primarily a diminutive of the name Richard" (251 F. 2d 926). The court found that plaintiff and defendant were in *direct competition,* one with the other. There was no serious contention made by defendant that the marks were dissimilar.

The foregoing cases upon which plaintiff has placed such great emphasis, wherever relevant, are in fact in point for defendants and *plaintiff has cited no case in which an individual doing business under his own surname, coupled with a geographical reference identifying source and origin of product, has been precluded or enjoined because of a prior trade-mark which included the same surname coupled with a Christian name given equal prominence.*

If plaintiff's cases are carefully read and analyzed, the conclusion is inevitable that notwithstanding some dicta upon which plaintiff relies, there is no rule or legal principle which will permit plaintiff to monopolize the surname "Sachs" as against an individual who is honestly and legitimately attempting to carry on his own business under his own name without confusing or misleading advertising and without attempt to "palm off" his goods or trade on the good will of another.

POINT V.

The Legal Test of "Likelihood of Confusion" Is Not Whether the Merchandise of the Respective Parties Is "Capable of Emanating From the Same Source" but Whether an Ordinarily Discriminating Purchaser Would Purchase Defendants' Product in the Belief She Was Purchasing Plaintiff's Product. The Test Is Not Possibility but Probability of Confusion.

The cases cited by plaintiff do not sustain its contention that "the criterion is whether the respective merchandise *could emanate* from a single source of origin" (App. Op. Br. p. 12, lines 9-10). Such a criterion would involve mere *possibility,* not *reasonable probability,* that a purchaser would confuse the identity of the manufacturer. The true test is whether there is "likelihood of confusion"; a test earlier recognized in appellant's opening brief (p. 3):

> "The cardinal issue in this cause is whether or not the concurrent use of the trade-marks of the parties upon the respective merchandise, namely women's ready-to-wear dresses is *likely to cause confusion or mistake or deception* among retail customers as to the source of origin of the goods. The same issue relates to the trade names used by the parties for identifying their dress manufacturing businesses." (emphasis ours).

On this issue the trial court made specific findings of fact adverse to plaintiff which are abundantly sustained by the evidence [R. 49-50].

> "*From the standpoint of sound when orally pronounced the trade marks are not confusingly alike. They are not confusingly similar in appearance.* There is no likelihood of confusion between plaintiff's marks 'Paul Sachs Original', 'Don Sachs Original' and the registered trade-mark 'Don Sachs' with defendants' trade-mark and trade name 'Sachs of California'."
>
> * * *
>
> "No critical questions of law are presented in the case at bar. This decision rests upon determination of questions of fact . . ."
>
> * * *
>
> "The only conclusion which the evidence in this case enables the court to reach is that . . . *the trade-marks are clearly distinguishable by their customers and there is no likelihood of confusion from the use of the trade name and trade-mark Sachs of California' by the defendants.*" [R. 49-50].

It is well settled in this circuit that factual findings of this nature will not be reversed, even though "reasonable minds might differ". As stated in *Oriental Foods v. Chun King Sales,* 244 F. 2d 909, 915:

> "It is entirely possible that different triers of fact might come to different conclusions on these facts but we cannot say it was clearly erroneous for the District Court here to come to the conclusion that no unfair competition existed. Such a judgment is supported by the court's findings, and they in turn are supported by the evidence."

So also in,

Audio Fidelity, Inc. v. High Fidelity Recordings, Inc., 283 F. 2d 551, 557:

> "Ordinarily such a determination is one of fact, where it is one upon which reasonable minds might differ. Under such a circumstance we could not interpose our judgment for that of the trial court."

In most cases, plaintiff's brief *omits* discussion of the basic facts which led to a finding of infringement or unfair competition in any particular case. As stated in *Harold F. Ritchie, Inc. v. Chesebrough-Pond's Inc.*, 281 F. 2d 755, 757 (1960):

> "Each case alleging trademark infringement must be judged on its own facts, and citation of authorities is not very helpful, except insofar as they show the general pattern. LaTouraine Coffee Co., Inc. v. Lorraine Coffee Co., Inc., 2 Cir., 157 F. 2d 115, 117, certiorari denied 327 U. S. 771, 67 S. Ct. 189, 91 L. Ed. 663; Q-Tips, Inc. v. Johnson & Johnson, 3 Cir., 206 F. 2d 144, 147."

We shall, therefore, attempt to define the factors which must ordinarily be found to be present in order to find infringement (Point VI, *post*).

POINT VI.

In Determining Whether or Not Trade-Marks Are Confusingly Similar, They Must Be Considered "As a Whole", With Due Regard to Several Factors:

(1) Similarity in Appearance, Sound and Contexts;

(2) Degree of Care Likely to Be Exercised by Purchasers;

(3) Colorable Imitation in Labels or Advertising;

(4) If Defendant Has Acted Honestly and Innocently or Has Deliberately Adopted Another's Trade Name With the Intent of "Palming Off", Deceiving or Confusing Customers.

In *Avrick et al. v. Rockmont Envelope Co.,* 155 F. 2d 568 (1946), plaintiff ("Sky-Rite") sued defendant ("Sky Mail") for infringement of trade-mark on air mail stationery. The court held non-infringement, stating the following:

> "Restatement has however listed the following as important factors entering into the equation: '(a) the degree of similarity between the designation and the trade-mark or trade name in (i) appearance; (ii) pronunciation of the words used; (iii) verbal translation of the pictures or designs involved; (iv) suggestion; (b) the intent of the actor in adopting the designation; (c) the relation in use and manner of marketing between the goods or services marketed by the actor and those marketed by the other; (d) the degree of care likely to be exercised by purchasers.' 3 Torts A.L.I., Sec. 729".

* * *

> "*It is the total effect produced by the designation in the mind of the ordinary purchaser, exercising due care in the market place.*" (155 F. 2d 568, 572.)

In *Nebraska Consolidated Mills Company v. Shawnee Milling Company,* 198 F. 2d 36 (1952), the Court of Appeals for the Tenth Circuit sustained the finding of the trial court that the brand name "Mother's Pride" was "not sufficiently similar to the brand name "Mother's Best" to be likely to deceive an ordinary buyer exercising ordinary intelligence and observation in business matters". The appellate court said at page 38:

> "In Ph. Schneider Brewing Co. v. Century Distilling Co., 10 Cir., 107 F. 2d 699, 704, we stated the test for determining whether confusion of goods is likely to result, as follows:
>
> > 'The *test is whether the similitude in the labels would probably deceive a purchaser who exercises ordinary prudence, not the careless buyer who makes no examination.*' "

In *Eastern Wine Corporation v. Winslow-Warren, Ltd.,* 137 F. 2d 955, the plaintiff had sold wines under the name of "Chateau Martin" for many years prior to the time that defendant commenced the sale of wine in a similar bottle under the name of "Chateau Montay". The trial court issued an injunction, holding the names were so similar "in sound and appearance . . . as to make confusion of the two probable" (137 F. 2d 957). Evidence was introduced that an investigator had asked for defendant's product in two retail stores and was offered plaintiff's product; that bottles of plaintiff's product were displayed in one retail store on top of cases of defendant's product and that an officer of one wholesaler testified his salesmen had attributed the decline in plaintiff's sales to the fact that defendant's product was on the market and was "similar in type of package and very close in name". Upon appeal, the Circuit Court of Appeals *reversed* upon the following grounds:

> "We approach the case at bar having in mind the basic common law policy of encouraging competition and the fact that the protection of monopolies in names is but a secondary and limiting policy.
>
> "Although the plaintiff made diligent efforts, through an investigator, to find persons who had actually been misled by the alleged confusion of the two names, the evidence on that score which plaintiff obtained was so trifling and unconvincing that the trial judge found that 'the evidence as to actual confusion and actual damage is too speculative to support a judgment for accounting.'
>
> * * *
>
> ". . . we believe there was no such probability [of confusion]. In so concluding, we are indeed confirmed by the inability of plaintiff, despite its diligence, to procure satisfactory evidence on that issue. The issue in such a case as this is '*whether an appreciable number of prospective purchasers of the goods . . . are likely' to be confused*. 'That a few particularly undiscerning prospective purchasers might be so misled is not enough.' " (Quoting Restatement of Torts, § 728, Comment a.)

In *American Automobile Association v. American Automobile Owners Association* (1932), 216 Cal. 125, the court stated the test applicable to determine "likelihood of confusion" as follows:

> "Would a person exercising that care, caution and power of perception which the public may be expected to exercise in the matter which it has in mind, mistake one of said emblems for the other?" (216 Cal. 131).

In *Southern California Fish Company v. White Star Canning Company,* 45 Cal. App. 426 (187 Pac. 981), the court stated:

> ". . . a resemblance which would deceive only an indifferent or careless purchaser gives no right of action."

Although *men's* clothing and military uniforms may be strikingly similar in style, fabric and appearance (*e.g., Brooks Bros. v. Brooks Clothing, etc.,* 60 Fed. Supp. 442), the exact opposite is true of *women's* apparel, in which the styles, fabrics, and general appearance of women's dresses is noticeably dissimilar. The Trial Court has found upon abundant evidence that women shoppers constantly exercise their personal taste and judgment in determining whether or not a particular dress fits their particular individual needs [Rec. 45, 46]. This careful selection exercised by women buyers distinguishes the case at bar from the "mass-produced low-priced articles" in which no personal taste is required or exercised.

So, in *Societe Anonyme, etc. v. Julius Wile Sons & Co.,* 161 Fed. Supp. 545 (1958), the court said at page 547:

> ". . . As distinguished from mass produced low priced articles, the selection and purchase of a creme de menthe cordial generally involves an exercise of personal taste and purchasers of such liqueurs are apt to buy with a greater degree of sophistication and care than might be true in their purchase of other merchandise. Such a consideration is always relevant in appraising the likelihood of confusion. See LaTouraine Coffee Co. v. Lorraine Coffee Co., 2 Cir., 157 F. 2d 115, 124 (dissenting opinion), certiorari denied 1946, 329 U. S. 771, 67 S. Ct. 189, 91 L. Ed. 663; Restatement, Torts § 729(d), comment g (1938); 3 Callmark, Unfair Competition and Trademarks § 81.2(a) (2 ed. 1950)."

> "Each of the two marks now before the court, 'Freezomint' and 'Frappemint' must, of course, be considered as an entire unit. The ordinary buyer does not stop to dissect the marks and analyze their component parts; if he is deceived it is attributable to the *mark as a totality and not normally to any particular part of it.* Syncromatic Corp. v. Eureka Williams Corp., 7 Cir., 174 F. 2d 649, 650, certiorari denied, 1949, 338 U. S. 829, 70 S. Ct. 79, 94 L. Ed. 504."

At page 548, the court further stated:

> "Though precedents are not particularly helpful in this area it is of interest to note that the designation 'Clor-Aids' was held not to infringe 'Clorets' and the word 'Syrocol' not to infringe 'Chera-

> col'. American Chicle Co. v. Topps Chewing Gum, 2 Cir., 1954, 210 F. 2d 680; Upjohn Co. v. Schwartz, 2 Cir., 1957, 246 F. 2d 254. The two marks in the instant case cannot be said to possess greater similarities than those discussed in the cases above where infringement was found lacking."

In *E. & J. Gallo Winery v. Ben R. Goltsman & Co.*, 172 Fed. Supp. 826 (1959), there were before the court two wine labels which were ostensibly very similar, *e.g.*, plaintiff ("Thunderbird"—"grape wine with natural pure flavors") and defendant ("Thunderbolt"—"grape wine with pure natural flavors"). The court found no infringement, and stated at page 829:

> "This Court further finds that there is no reasonable likelihood that the wine-buying public[2] will be deceived or confused by the two trademarks in question."
>
> "[2]The evidence in this case makes it clear that the wine-buying public—insofar as their selection and purchase of wine is concerned—is a highly discriminating group."

It is noteworthy that in both the *Gallo Winery* and *Julius Wile* cases, *supra*, the court referred to the "personal taste" and discrimination which would ordinarily be exercised by purchasers who would readily distinguish between both the trade-marks and the products. Similar "selectivity" has been found to be exercised in connection with the purchase of watches in *Ex parte Perregaux*, 106 U. S. P. Q. 206 (1955), in which the Commissioner of Patents held there was no likelihood of confusion between two trademarks respectively designated "Girard Perregaux" and "Paul Perregaux".

In *Curtis-Stephens-Embry Co. v. Pro-Tek-Toe Skate Stop Co.* (1952, C. C. A. 8), 199 F. 2d 407, the court held the trade-mark "Pro-Tek-Tiv" was not infringed by defendants' trade-mark "Pro-Tek-Toe", the court holding that the question of infringement must be decided upon the same principles whether under the statute or common law, stating at page 414:

> "But although the registration is valid and a secondary meaning was established for the mark 'Pro-Tek-Tiv', it does not necessarily follow that plaintiff was entitled to a finding or judgment of infringement. . . . *Both the statute and the law of unfair competition confer and protect only the ultimate objective of both—the right to be free from the unfair competition of one who seeks by the use of a similar mark to palm off his products as those of the owner of the trade-mark. * * * Defendants selected their mark and used it in good faith without knowledge of plaintiff's trade-mark or intent to interfere with or injure plaintiff's business or reputation. * * * Defendant was not using the mark in such a manner as to make it appear that its product was that of plaintiff. We find no basis in this record for a finding of infringement or unfair competition.* California Fruit Growers Exch. v. Sunkist Baking Co., 7 Cir., 166 F. 2d 971; Federal Telephone & R. Corp. v. Federal Television Corp., 2 Cir., 180 F. 2d 250; Brown & Bigelow v. B. B. Pen Co., 8 Cir., 191 F. 2d 939; Majestic Mfg. Co. v. Majestic Elec-

tric App. Co., 6 Cir., 172 F. 2d 862; Hiram Walker & Sons v. Penn-Maryland Corp. 2 Cir., 79 F. 2d 836." (Emphasis added.)

In *Solventol Chemical Products v. Langfield,* 134 F. 2d 899, 903, the trade-mark "Solventol" was held *not* to have been infringed by the similar trade-mark "Solvete", the court stating:

> " 'The suffixes "vite" and "tol" distinguish one combination from the other and give an identifying character to the trade designation which makes it unlikely that one trade-mark could, with the exercise of ordinary care, be mistaken for or be confused with the other. They look unlike, are spelled differently, and are phonetically dissimilar.' "

In *Maas & Waldstein Company v. American Paint Corp.,* 178 Fed. Supp. 498 (1959), the plaintiffs had registered the trade-mark "Plextone" under the Lanham Act for many years prior to the defendant's adoption of the mark "Flexitone", both products relative to color paints. The court held *non-infringement* at page 501:

> "The evidence of the instant case furnishes no demonstrable likelihood of defendant's misleading the purchasing public to believe it is obtaining a Plextone product when it is buying a Flexitone product."
>
> * * * * *
>
> "The exercise of ordinary care by a purchaser of defendant's product would obviate all possibility of confusing it with plaintiffs'."

In *Miles Laboratories, Inc. v. Henry J. Frolich,* 195 Fed. Supp. 256 (1961), the plaintiff-owner of the trademark "Alka-Seltzer" sued the defendant who was utilizing the trade-mark "Milk-O-Seltzer" for alleged infringement, claiming confusing similarity. The court held non-infringement, stating:

> "The only genuine similarity between the marks here is the use of the word 'seltzer' as the last syllable of both.
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> * * * * *
>
> "Plaintiff suggests that unless relief is granted, defendant may change his packaging so as to copy plaintiff. It will be soon enough to decide such a case of 'palming off' when it arises.
>
> * * * * *
>
> "Plaintiff points out that both products might be sold to the same or similar customers and that these customers probably do not exercise particular caution in purchasing. Although the purchasers of of patent medicines are 'casual' rather than 'discerning,' Grove Laboratories, Inc, v. Approved Pharmaceutical Corporation, D.C.N.D.N.Y. 1957, 149 F. Supp. 86, 90; Callman, supra, vol. 3, pp. 1383-1392, this factor is not decisive unless the names are confusingly similar."

Courts have frequently commented upon the failure of a plaintiff to produce substantial evidence of actual confusion where competing products have been used in the same territory *Mishawaka Rubber & Woolen Mfg. Co. v. Panther-Panco Rubber Co., Inc.*, 153 F. 2d 662, 665 (1946); *Maas & Waldstein v. American Paint Corp.*, 288 F. 2d 306 (1961)).

Even where a plaintiff has produced some slight evidence of confusion or mistake, this has been held to be immaterial (*Avrick, et al. v. Rockmont Envelope*

Co., 155 F. 2d 568 (1946); *Nebraska Consolidated Mills Company v. Shawnee Milling Company,* 198 F. 2d 36 (1952); *Eastern Wine Corporation v. Winslow-Warren, Ltd.,* 137 F. 2d 955; *S. C. Johnson & Son v. Johnson* (1949), C. C. A. 2, 175 F. 2d 176.

It is furthermore significant that defendants acted honestly in the adoption of defendant John Sachs' name and in designating the place of manufacture as part of their business firm name. Notwithstanding plaintiff's position that it is "not requisite to show actual confusion" (App. Op. Br. p. 67), the cases principally relied on by plaintiff show "a deliberate attempt to confuse and mislead the public into believing that the product was sponsored or manufactured" by the defendant (*e.g., MacSweeney Enterprises v. Tarantino,* 106 Cal. App. 2d 504, 514, cited in App. Op. Br. p. 67). See also Point IV, *supra,* and Point VII, *infra,* in which the same factual elements of deliberate or fraudulent intent, appear as the actual basis of the respective decisions cited by plaintiff.

As we have shown, the converse is true when the defendant has acted innocently, with no intent to confuse or deceive customers (see *Curtis-Stephens-Embry Co. v. Pro-Tek-Toe, etc.* (1952), C. C. A. 8), 199 F. 2d 407, 414; *Avrick, et al. v. Rockmont Envelope Co.,* 155 F. 2d 568; *Faciane v. Starner* (C. C. A. 5), 230 F. 2d 732).

In *Palmer v. Gulf Publishing Co.,* 79 Fed. Supp. 731 (1948), Judge Yankwich held that plaintiff's trademark registration on the magazine title "World Petroleum" was not infringed by a subsequent use of the title "World Oil", quoting with approval from the following cases:

Collegiate World Publishing Co. v. DuPont Publishing Co., 14 F. 2d 158, 160, wherein the name "College Humor" was held not infringed by "College Comics";

Fawcett Publications v. Popular Mechanics, 80 F. 2d 194, wherein the title "Popular Mechanics" was held not to have been infringed by the title "Modern Mechanics"; and

McGraw-Hill Publishing Co. v. American Aviation Associates, 117 F. 2d 293, wherein the title "Aviation" was held not to have been infringed by the defendant's title "American Aviation".

Although the last cited cases involve so-called "periodical trade-marks", we submit that the purchasers of such periodicals customarily use their own personal taste, discrimination and judgment in selecting a periodical which is purchased from a newstand or other outlet. The reasoning in these cases closely approximates the reasoning of the courts and the Patent Office wherever customers are expected to exercise "that care, caution and power of perception which the public may be expected to exercise". Furthermore, the "periodical trade-mark" cases have been cited with approval in non-periodical cases in this very circuit and by this Court. For example, *Palmer v. Gulf Publishing Co.*, 79 Fed. Supp. 731, is cited with approval in *Sunbeam Lighting Co., et al. v. Sunbeam Corporation*, 183 F. 2d 969 (1950), wherein this Court said at page 973:

> "We commend the opinion as a careful study of the broad issues of this case buttressed by many authorities and apt quotations therefrom."

In the *Sunbeam* case, the trial court had enjoined use of plaintiff's registered and common law trade-mark "Sunbeam". This Court *reversed,* subject to the following limitations (183 F. 2d 974): (1) that defendant could not use the word "Sunbeam" *"with a script resembling or suggestive of the script used by plaintiff-appellee"* and (2) defendant could not use the *complete two-word names* "Sunbeam Master" or "Sunlight Master" first adopted and used by plaintiff. This Court held that defendant's use of the word "Sunbeam" would not otherwise be enjoined.

It is noteworthy that the only distinction between the names of the parties was that plaintiff's name was "The Sunbeam Corporation"; defendant's name was "Sunbeam Lighting Company"; and it was the defendant's practice to place upon its articles, advertising and catalogs the following designation, "Sunbeam Lighting Company, Los Angeles, Cal." and this practice was held to be proper and was sustained by this Court as non-infringement of plaintiff's trade-mark (183 F. 2d 972).

The two latest cases which have come to our attention are *Societe Comptoir de l'Industrie Cotonniere, Establissements Boussac v. Litwin & Sons, Inc.,* 130 U. S. P. Q. 359 (1961) in which the name "Christian Dior" was held not infringed by "Maison d'Or"; and *Wincharger Corp. v. Wiancko Engineering Co.* (C. C. Pa. 1962), 133 U. S. P. Q. 378, 301 F. 2d 927 in which the name "Winco" was held not infringed by "Wiancko"; notwithstanding similar sound, spelling and appearance. Each of these late cases involved registration of trade-marks in the same class of goods salable to the same customers in the same market.

POINT VII.

Plaintiff's Cases Involving Deliberate Misappropriation of a Fanciful Trade-Mark Are Not in Point.

We have heretofore considered some of the cases principally relied upon by plaintiff in which surnames *or* Christian names (when *not* combined in a single trade-mark) have been held to have been deliberately and fraudulently misappropriated (*e.g., Brooks, Dobbs, Sullivan, Harvey,* etc., see Point IV, C. *supra,* pp. 37-46;

We now turn to other cases cited by plaintiff in its appeal brief in which the trade-marks are truly fanciful but the finding of infringement was based upon deliberate misappropriation of the fanciful mark.

In *Barbizon Corp. v. Hollub,* 41 N. Y. Supp. 2d 117 (cited in App. Op. Br.), one trade-mark was not merely similar *in part* to the other—the trade-mark "Barbizon" was *appropriated in its entirety* by defendants, the court holding that confusion of source would necessarily follow. Further, the garments of both parties could be purchased by the *same retail customer,* a factor which in and of itself distinguishes that case from the case at bar. It is obvious that no personal surname was involved and that no effort was made to distinguish defendants' trade-mark from plaintiff's. The infringing mark was identical.

In *Carlisle Shoe Co. v. Societe Anonyme,* 278 F. 2d 519 (quoted in App. Op. Br. p. 32), the single word "Mademoiselle" constituted appellant's entire trade-mark and was held to be dominant in the applicant's trade-mark because the additional words "Le Gant" were displayed *less prominently* than the word

"Mademoiselle" and the latter trade-mark had been appropriated in its entirety by defendants. In the *Mademoiselle* case the following factors were all present and totally distinguish that case from the case at bar:

(1) Plaintiff's trade-mark consisted of one word only, which was appropriated in its entirety.

(2) The additional words added by defendants were in much smaller type and "displayed less prominently" both in the trade-mark and in advertising.

(3) Defendants deliberately adopted plaintiff's trade-mark as a part of their trade-mark for the purpose of "trading upon" plaintiff's good will.

In *Chips 'N Twigs, Inc. v. Blue Jeans Corp.*, 146 Fed. Supp. 246 (quoted in App. Op. Br. p. 24), plaintiff manufacturer of "Chips" blue jeans secured an injunction against defendant who manufactured "Blue Chips" blue jeans. Defendant's merchandise was sold at a much lower figure; was of substantially inferior quality; and was capable of being sold to the same retail customers. The court held defendant's name to be deceptively similar and to have been adopted with the *deliberate purpose of "palming off" inferior goods.* Of course, no personal surnames were involved.

In *Jays' Inc. v. Jay-Originals, Inc.*, 76 U. S. P. Q. 238 cited in appellant's opening brief, page 48, the court found as a fact that the defendant had actual notice of plaintiff's name "Jays" and of the fact that plaintiff used the name "Jays" and "Jay" in its advertising and publicity; furthermore, that there was actual competition between plaintiff and the retailers to whom defendant sold its merchandise. In addition, there was evidence of actual confusion in that mail sent to one party was delivered to another. Finally, the court noted that defendant had not used a personal surname but had arbitrarily selected one of the names used by plaintiff to which secondary meaning had attached:

> "It is to be noted that the name 'Jay' is not the real name of anyone connected with the defendant corporation but was a name arbitarily chosen." (76 U. S. P. Q. 240).

In *National Design Center, Inc. v. 53rd Street Design Center, Inc.*, 203 N. Y. Supp. 2d 517 (cited in App. Op. Br. p. 34), plaintiff's and defendants' places of business were located almost directly opposite each other on the same street in New York City and each featured furniture, bric-a-brac and allied products; and the court found the words, "Design Center" to have been adopted by the defendants with the *deliberate intention* of harming the plaintiff and trading upon plaintiff's good will.

In *Lorraine Manufacturing Co. v. Loraine Knitwear Co., Inc.*, 88 Fed. Supp. 634 (quoted in App. Op. Br. p. 68), the labels were found by the court to have been so similar as likely to deceive purchasers because the *only difference* between plaintiff's registered trade-mark and defendant's label being the omission of one letter "r" in the word "Lorraine".

In *Safeway Stores, Inc. v. Dunnell*, 172 F. 2d 649 (quoted in App. Op. Br. p. 40), plaintiff's single word "Safeway" was broken into two words as "Safe Way" by defendants; both were blocklettered in the same manner; and the court held the marks to be "substantially identical".

In *Swarthmore Classics, Inc. v. Swarthmore Junior,* 81 Fed. Supp. 917 (quoted in App. Op. Br. pp. 31, 40, 68, 77), the court found neither plaintiff nor defendants used the word "Swarthmore" "in its geographic denotation"; both used it for its "young college girl" connotation (81 Fed. Supp. 919; finding 14), both plaintiff's and defendants' goods were "bought by common retail purchasers" [Finding 21]; plaintiff's and defendants' offices were adjoining on Broadway [Finding 10]; mail was misdirected prior to and subsequent to the time such adjoining offices were established [Finding 11]. The court concluded that one trade-mark was a colorable imitation of the other.

In *Youth Form Co. v. R. H. Macy & Co., Inc.,* 153 Fed. Supp. 87 (quoted in App. Op. Br. p. 30), notwithstanding identity in sound, spelling and appearance, defendant was only enjoined from utilizing the two words "Youth Form" *in script* because plaintiff's trade-mark "Youthform" was "written in script as one word" (153 Fed. Supp. 94). Defendant was *not* enjoined from utilizing the two words "Youth Form" in *block letters:*

> "Defendant in all areas may use the two words 'Youth Form' and the three words 'Miss Youth Form' in block letters as such words will not cause such confusion in the trade as to entitle plaintiff to an injunction." (153 Fed. Supp. 95).

See also *Richard Hudnut v. Du Barry of Hollywood, Inc.,* 127 U. S. P. Q. 486, 487; *Brooks Brothers v. Brooks Clothing of California,* 60 Fed. Supp. 442 and the other cases cited by appellant heretofore distinguished in our brief, Point IV, *supra,* in all of which the trial court found deliberate confusion or fraudulent intent in defendants' advertising as the basis of the judgment for unfair competition entered in the respective cases cited by plaintiff.

POINT VIII.

Defendants' Business Name, "Sachs of California", Consists of a Combination of Three Words Which Has Acquired Secondary Meaning Solely Identifying Defendants and Their Merchandise.

Appellant insists on dissection of both plaintiff's and defendants' marks. Of course, the term "of California" is "inherently incapable of distinguishing appellees' dresses" (App. Op. Br. p. 53) only if it is *divorced* from the balance of defendants' actual trade name "Sachs of California".

Plaintiff seeks to have this Court disregard two-thirds of defendants' trade name "Sachs of California" upon the ground that the term "of California" is "without trademark significance" (App. Op. Br. p. 53). This contention is made notwithstanding the fact that defendants' full business name "Sachs of California" has been utilized in every label, hang-tag, order form, letterhead, envelope, calling card and advertisement prepared or used by defendants [See Deft. Exs. A, B, C, D, E, F, G, H, I, K, R, S, and T]. Similarly, the entire name is used with all three words in capital letters in the various sales solicitations prepared by the various national buying services through which defendants sell a large proportion of their merchandise [*e.g.,* Defts Exs. L, L-1, L-2, M, N, O].

Plaintiff adopts the test of "a dominant feature of a trade-mark" as "that which is most noticeable and most unavoidably attracts the attention of the public" (App. Op. Br. p. 53, quoting Callman, Unfair Competition and Trade-Marks, p. 1438]. The uncontradicted evidence of Mr. Woodard and Mr. Weishar, and defendants' other witnesses, is that the words "of California" have achieved extraordinary value due to the modes of advertising and promotion of merchandise manufactured in California. Most of the members of the California Fashion Creators utilize the name to identify the origin of their products and to attract the public's attention to the State of California as the source of their goods [R. Tr. 366, 368, 476]. Mr. Woodard testified *without contradiction* that "the California market in itself has always stood for something unique in the apparel, and in the color, and in the design, and in the styling of the clothes which we make out here; I don't think there is any question about the fact that we have obtained world-wide recognition of the California market" [R. Tr. 347]. Mr. Woodard further testified that "the purpose of our association" is "to establish in the minds of the general public throughout the United States the special, unique and distinctive nature of the California market" [R. Tr. 348]. Large Eastern retail department stores in Detroit, Chicago, and elsewhere feature California-made merchandise and hold "a California promotion in their stores" [R. Tr. 351]. In 1961, "California Fashion Creators itself was instrumental in assisting 21 major department stores throughout the United States to hold whole-store California promotions of California merchandise that lasted all the way from three days to two weeks in the stores". In each of the 21 selected cities the stores would carry on a wide-spread newspaper advertising campaign "from two to four pages a day for the entire length of the promotion on California merchandise" [R. Tr. 352]. "Similar promotions" have taken place under the guidance of California Fashion Creators "for many years" [R. Tr. 353]. Mr. Woodard testified, in his expert opinion as a manufacturer familiar with the national market, that the use of the words "of California" constituted *"an added value"* utilized by virtually all members of his association [R. Tr. 366] and that "it is a *plus factor* in selling our merchandihe" [R. Tr. 368].

Similarly, Mr. Weishar, the May Company buyer, answered the Court's question as to whether there was general acceptance in the East of California-made dresses:

> "Yes, I think this market is definitely growing and there is definite demand for this market back East.
>
> The Court: The fact it is made in California is attractive?
>
> The Witness: Yes.
>
> The Court: And that is the distinguishing characteristic, you would say, from the standpoint of being able to make sales from dresses made in the West and those made in the East?
>
> The Witness: I would say it has a definite appeal to a customer if it is made in California regardless of whose name is above it" [R. Tr. 476].

Mr. Herman Schechter, owner of California Buying Service, Incorporated, purchasing for more than 100 stores, testified to "a very large group of stores in the eastern states, particularly in New York" which dramatized their newspaper ads with California merchandise because:

> "The California label alone seems to have the drawing appeal plus the colors and the specific type of garments that these people look for" [R. Tr. 495].

Even in California, Mr. Schechter testified, California merchandise is more easily salable:

> "It is more acceptable in certain categories to people who live here because it is California merchandise" [R. Tr. 496].

In view of this *uncontradicted* evidence as to the value of the term and label "of California", we submit the trial court was abundantly justified in making its findings that defendants adopted the term "of California" for a definitive purpose: to establish the origin and place of manufacture of their goods and to take full advantage of, and benefit from the widespread national advertising and promotion of California-manufactured goods by California Fashion Creators and department stores throughout the nation [R. 40-41].

At the trial [R. 32-33] plaintiff placed great stress upon the District Court decision in *California Apparel Creators v. Wieder of California,* 68 Fed. Supp. 499, *ignoring* the fact that this decision was appealed to the Circuit Court of Appeals, Second Circuit, which latter Court *contrary to plaintiff's assertion in the instant action,* expressly held that a geographical name *could* acquire secondary meaning and could be *protectible* under the law of unfair competition:

> "But, as plaintiffs contend, a geographical name may acquire a secondary significance which will support an action for unfair competition."

* * * * *

> "In the development of this branch of the law the name or mark acquired its secondary or actionable significance as identification of the source of manufacture of the goods, and hence as showing the origin of the goods" (162 F. 2d 893, 897).

The *California Apparel* case, when properly analyzed [R. Tr. 359, 360] is *not* authority for the proposition that the term " 'of California' has no secondary meaning", as contended by plaintiff; but, on the contrary, it squarely holds that the combination of a man's surname with his place of business may acquire secondary meaning and be protected by the courts:

> "This seems particularly the case with reference to certain geographical names where through some combination of circumstances such a name may come to mean in the public mind not a single source, but a number, even though limited, of independent manufacturers or producers. Thus actions have been held maintainable for misrepresentation by appropriation of geographical names where products of the soil of certain localities were, because of climatic or other natural advantages, superior to similar products of other localities, California Fruit Canners' Ass'n v. Myer, C.C.D. Md., 104 F. 82; Harvey v. American Coal Co., 7 Cir., 50 F. 2d 832, certiorari denied 284 U.S. 669, 52 S. Ct. 43, 76 L.Ed. 566" (162 F. 2d 893, 898).

See also:

Grand Rapids Furniture Co. v. Grand Rapids Furniture Co., 7 Cir., 127 F. 2d 245, 138 F. 2d 212, certiorari denied 321 U. S. 771, 64 S. Ct. 529, 88 L. Ed. 1066.

Plaintiff's counsel has completely misconceived the law of secondary meaning as applied to a trade-mark or firm-name which contains a geographical reference. Whether or not Eastern dress manufacturers copy or imitate California's vivid colors or color combinations is irrelevant. If, *in fact,* the words "of California" as contained in a dress label have acquired a secondary meaning in the mind of the public which identifies the product not only as having been manufactured in California but as having styling and color combinations which are characteristic of California merchandise and which are *particularly applicable to the manufacturer utilizing the term as part of his trade-mark, firm name or label,* then the term has intrinsic value and meaning both to the manufacturer and the public and is protectible by the courts. Plaintiff's assertion that the expression "of California" is "inherently incapable of distinguishing appellee's dresses" (App. Op. Br. p. 53) does violence to the entire concept of geographical terms acquiring secondary meaning and significance; the principle so well stated in *California Apparel Creators v. Wieder,* 162 F. 2d 893, 898; *California Fruit Canners Association v. Myer,* 104 Fed. 82; *Grand Rapids Furniture Co. v. Grand Rapids Furniture Co.,* 7 Cir., 127 F. 2d 245, 138 F. 2d 212, certiorari denied 321 U. S. 771, 64 S. Ct. 529, 88 L. Ed. 1066.

A fortiori, in the case at bar the geographical reference is not combined with a bare description of the kind of business (*e.g.,* a fruit canner or a furniture manufacturer), but is combined with the surname of the general partner. The secondary meaning attached to "Sachs of California" thus identifies defendants' business, and only defendants' business, and is the kind of designation current and customary in the dress manufacturing industry in this State [See Deft. Exs. P and Q, pp. 19-20, *supra*].

Appellant argues that the surname "Sachs" is the "dominant portion of appellees' trademark" (App. Op. Br. p. 52). As usual, appellant makes a series of assumptions which are not borne out by the evidence or by the trial court's decision in connection with this argument. The court did *not* decide that the words "of California" were "given an emphasis equal to that given the name 'Sachs' " (App. Op. Br. p. 52); nor was there any obligation upon the part of defendants to have "presented the phrase [of California] in a predominant manner" if they intended to rely upon it (App. Op. Br. p. 53). Appellant's argument that the words "of California" have *no significance whatever* and are "inherently incapable of distinguishing appellees' dresses" (App. Op. Br. p. 53) is a far different argument. As stated by appellant, the trial court found "both a primary and secondary meaning" attached to defendants' adoption and use of its trade-mark "Sachs of California". Appellant is in error in contending such meaning could not and did not attach to defendants adoption and use of the term. The evidence overwhelmingly supported the finding of the trial court that:

> "Defendants adopted the term 'of California' to establish the origin and place of manufacture of their goods and to take full advantage of, and benefit from, the widespread national advertising and promotion of California-made goods" [R. 41].

The cases cited by appellant hold in substance that addition of a geographical word to an established trademark will not justify its fraudulent misappropriation (*e.g.*, "Riviera" by "Riviera of California", *Ex parte Buddy Kit Co.*, 77 U. S. P. Q. 234; "Du Barry" by "Du Barry of Hollywood", *Richard Hudnut v. Du Barry of Hollywood, Inc.*, 127 U. S. P. Q. 486; "Celeste" by "Celeste of Miami", *Celeste Frocks, Inc. v. Celeste of Miami, Inc.*, 150 Fed. Supp. 604; *American Kennel Club v. American Kennel Club of La.*, 216 Fed. Supp. 267).

It should be noted that in each of the foregoing cases the registered trade-mark was misappropriated *in its entirety,* and the addition of the geographical word was held insufficient to avoid confusing similarity. In most of the cases fraudulent misappropriation was self-evident. In fact, in *Brooks Bros. v. Brooks Clothing of California, Ltd.*, 60 Fed. Supp. 442, the defendant omitted from all advertising and store signs the words "Clothing of California", and "long ago abandoned all the words of its title except 'Brooks' in all its methods of seeking custom" (60 Fed. Supp. 442, 453).

Appellant fails to recognize the distinction between a manufacturer who truthfully represents his goods as manufactured in California and one who fraudulently does so, because, argues appellant, "the same type of dresses that are produced in California are produced in other areas in the United States" (App. Op. Br. p. 62). The argument begs the question. If a manufacturer *truthfully* represents he is a California manufacturer and *the trade, both wholesale and retail, identify such manufacturer with his product by use of his trade-mark or trade name, both primary and secondary significance attach.*

If the manufacturer's purpose in adopting the geographical term is to fraudulently misappropriate or colorably imitate another's well-established trade-mark or trade name, both the Patent Office and the courts have held such adoption and use to be unjustifiable. The trial court has found honesty and fair use by the defendants in the case at bar, and *in addition* has found no confusing similarity and no probability of confusion between plaintiff's and defendants' marks. Discussion of anything else is irrelevant.

Conclusion.

It is only by isolated phrases taken out of context from the Memorandum of Decision, misinterpreting the phrases selected, and reading into them meanings and inferences never intended or applied by the District Court that the plaintiff can support its argument for reversal.

For each of the factual and legal reasons hereinbefore stated in this brief, we submit that the single surname, "Sachs", cannot be monopolized by plaintiff to the exclusion of all others, including the defendants. Such single surname was never given special emphasis or importance by plaintiff in any advertising or on labels or otherwise; it was always preceded and accompanied by the Christian names, "Paul Sachs" or "Don Sachs", in identical size, lettering, type and appearance. Furthermore, plaintiff used the word *"Original"* as a part of its trade-marks to identify its merchandise, to attract business, and to sustain its claim of "one store to a city".

Defendants never at any time traded upon plaintiff's advertising, or passed off its goods as plaintiff's. No reasonably sophisticated buyer would under any circumstances confuse either the trade-marks of the parties or their merchandise.

We submit the judgment of the trial court is abundantly sustained by the evidence and by the authorities hereinbefore cited, and such judgment should be affirmed.

Respectfully submitted,

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Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

HAROLD A. FENDLER,

No. 18,774.

IN THE

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT.

PAUL SACHS ORIGINALS CO.,
Appellant,

vs.

JOHN SACHS and LEO HIRSCH, Doing Business as
SACHS OF CALIFORNIA, a Partnership,
Appellees.

REPLY BRIEF OF APPELLANT.

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INDEX.

Cases Cited.

Statute Cited.

Textbook Cited.

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REPLY BRIEF OF APPELLANT.

INTRODUCTION.

By study of appellees' brief, one, of course, notes the predilection of appellees to cast aspersions upon appellant's arguments as though the same were precariously balanced on either out-of-context material or an ignoring of certain unspecified findings. It is submitted that this repeatedly exercised tendency of appellees is wholly unjustified, as appellant has earnestly sought to cover every aspect of this case and that, hence, appellees could only be projecting upon appellant characteristics most convincingly demonstrated by appellees' brief. Appellant will indicate herein, in the space allowed, at least the quality of the widespread usage of out-of-context material by appellees, revealing, through misconstruction of precedents, a misconception as to the fundamental applicable principles of law.

The constant reassertion of good faith or innocence in adoption of their mark runs thematically through appellees' brief, as though such, without more, constitutes an impregnable defense. As will be discussed hereinbelow, good faith is no defense. Also, one cannot help but be struck by an implied argument in appellees' brief, which is to the effect that trademarks are of questionable value, since women only buy dresses that fit. This viewpoint which constitutes a flowing undercurrent is, of course, effectively denied by the strong resistance made by appellees in this case, which resistance attests most convincingly to the fact that trademarks are important.

COLE OF CALIFORNIA CASE.

A decision in the Patent Office which was just published on September 9, 1963, is considered by appellant to be so extremely important that the full opinion has been set forth as an appendix hereto. This is the case of **Cole of California, Inc., v. Richard J. Cole, Inc.** (PO TM TApp Bd), 138 USPQ 522. The pertinency of this case to almost all facets of the present case is quite apparent, and comment will be made thereon at the appropriate junctures throughout this brief. Therein the unsuccessful applicant sought to rely upon the decision of the District Court in this very case upon the apparent ground that if the expression "of California" was as distinctive as the District Court had held, then certainly one utilizing the expression "of California" in its mark should not be heard to complain because someone else used the same basic mark but without the expression "of California". In other words, there are two sides to a coin, so that in all justice, if the expression "of California" does, arguendo, have secondary meaning in the wearing apparel field, then the absence of such expression from the mark of an individual should render that individual immune to any attack by a concern using the same mark but with the expression attached. The sword has to cut two ways if logic is to prevail, so that, for instance, if the District

Court's view was maintained, then one utilizing the expression "Sachs of California" could not object to the use of the term "Sachs" by another firm on the same merchandise.

The Patent Office, however, rejected this view and did not follow the decision of the District Court in this case, but held the expression "of California" to be "a merely geographical notation" with the name "Cole" being the salient feature of the trademark. Thus, despite the District Court's finding, the Patent Office still maintained the aforesaid expression to be only geographical, at least, as far as women's wearing apparel is involved.

Since appellees *concede* the importance of decisions of the United States Patent Office and thus joins with appellant in this regard (Br. 24), the opinion in the **Cole of California case** is most apt. The Patent Office, despite the fact that each of the marks was comprised of three or more words, still looked at the dominant feature of each of the marks, which it held to be the word "Cole", and thereon held for the opposer, denying the applicant the right to register its mark.

It will also be seen that each of the parties in that case did not produce the same dresses, with Cole of California, Inc., using its mark on swim suits, beach wear and sportswear, and the applicant using its rather lengthy mark "Coleknit by Richard Cole" on ladies' and misses' dresses, coats, suits, skirts, blouses and shirts. The court noted that the goods were partly identical *in kind* and otherwise comprised items of women's wearing apparel which could be attributed to a single source if sold under similar marks.

Accordingly, this timely Patent Office decision is urged for serious consideration by this Court, since it was decided with full knowledge of the findings by the District Court in this case.

APPELLEES *CONCEDE* THAT "SACHS" IS DOMINANT PORTION OF THEIR MARK.

Throughout their brief appellees repeatedly resort to an oft stated view that trademarks should be considered in their entirety (Br.* 25, 29, 30, 53 et seq.). Appellees assert:

> "* * * courts have applied the rule that the trade-mark must be considered 'in its entirety' and that a single identical word or the portion of a trade-mark will **not** be held to be 'dominant' so as to confuse a purchaser *in the absence of special emphasis in size, color or appearance upon* [*read 'of'*] *the word of* [*read 'or'*] *term claimed to be dominant*" (Br. 29).

By this definition appellees have *conceded* that the word "SACHS" is dominant in their trademark, for one cannot deny that it does not have special emphasis in size and appearance in the term "SACHS of California." Appellees have admitted what is nothing more than an objective fact.

Appellees refer to various cases on the pages above noted, as though the same support their statement. A proper study of these cases, rather than a mere glance at the headnotes shows that although courts make reference to the rule that trademarks are to be considered in their entirety, they still actually dissect the marks involved so as to give proper relative weight to those portions which are distinctive. For example, in **Vita-Var Corp. v. Alumatone Corp.** (D. C. S. C. Cal.—1949), 83 F. Supp. 214, 81 USPQ 330, in holding "Alumatone" and "Alumikote" to be dissimilar, the court noted that the prefix portions of the marks were derived from the word "aluminum" and have been commonly used in combination with other words in connection with aluminum paints since long prior to plaintiff's first use of "Alumikote." In **American**

* Herein the abbreviation "Br." refers to appellees' brief.

Chicle Co. v. Topps Chewing Gum, Inc. (CCA 2—1954), 210 F. 2d 680, 101 USPQ 133, the court observed that the prefix ''clor-'' in the marks of the parties was nothing but a descriptive, abbreviated term for the word ''chlorophyll'', and thus ignored such prefix in considering the similarity of the marks. The quotation on page 56 of appellees' brief from the case of **Solventol Chemical Products v. Langfield**, 134 F. 2d 899, demonstrates that the court ignored the prefix ''sol-'' in the marks, since the same was descriptive as to solvents, and based its decision upon the lack of similarity in the suffix portions. In **Miles Laboratories, Inc. v. Frolich** (D. C. S. C. Calif.—1961), 195 F. Supp. 261, 130 USPQ 18, in holding the marks ''Alka-Seltzer'' and ''Milk-O-Seltzer'' not to be confusingly similar, the court observed the descriptive character of the word ''seltzer'' and thus discounted the suffix in those marks. Similarly, in **Nestle Milk Products v. Baker Importing Co.** (CCPA—1950), 182 F. 2d 193, 86 USPQ 80, the court held ''Nescafe'' and ''Hycafe'' to be dissimilar upon the ground that the word ''cafe'' was descriptive as applied to coffee products. The following statements of the Court in that case show most clearly how courts in reality apply the concept of entirety at page 196:

> ''The marks considered in their entireties must be considered * * *. A descriptive word, having little trademark significance, will not be regarded as the dominant part of the mark.''

In **Societe Anonyme, etc. v. Julius Wile Sons & Co.**, 161 F. Supp. 545, 117 USPQ 258, the court recognized the ''concededly descriptive nature'' of the suffix ''mint'' in the marks of the parties and based its decision on the question of the similarity of the prefix portions, thereby in a judicially constant manner, denying trademark significance to descriptive language.

Restriction of space prevents comment with respect to each of these cases cited by appellees, but it can be unequivocally asserted that none of the cases support the above statement of appellees, and, furthermore, substantially all show conclusively that the so-called rule of viewing trademarks in their entirety is exercised only after a judicial dissection of the marks and a discounting of descriptive portions. Thus, these cases cited by appellees support appellant's view that the word "Original" in appellant's mark and "of California" in appellees' mark, being descriptive, "will not be regarded as the dominant part of the mark."

In the **Cole of California, Inc., case,** supra, each of the parties had trademarks comprising a plurality of words but the Patent Office only considered the term "Cole" which was common to both and held the marks confusingly similar despite all the additional verbiage, holding "Cole" to dominate "Coleknit" and "Cole" to be the salient feature of "Cole of California."

APPELLEES CONCEDE MERCHANDISE OF PARTIES SUBSTANTIALLY IDENTICAL.

In their effort to prove that the garments of the parties are different, appellees rely upon physical measurements and styling. As for styling, the judicial notice of the trial court with respect to the seasonal changes in styling (R. 45) satisfactorily discounts any distinction based on styling. With respect to measurement, appellees rely upon one inch in the bust, one inch in the waist, and possibly two inches in the hip (Br. 9, 10) to be adequate for proving that ready-to-wear dresses showing such differences would not be considered as emanating from the same source of origin. The implication of such a contention is that another manufacturer could with impunity produce, as it were, a "Sachs" or a "Jane Sachs" dress having a 34-

inch bust; another a "Sachs" or a "Mary Sachs" dress with a 33-inch bust, ad infinitum without the possibility of confusion. Appellees do not cite one precedent which would suggest a legal foundation for such a microscopic difference in dresses and, most pointedly, appellees have refused to consider the numerous cases cited in appellant's brief showing how courts view articles of wearing apparel identified by confusingly similar marks.

However, the **Cole of California, Inc.** case, supra, shows that the Patent Office does not subscribe to any theory differentiating merchandise which is "identical in kind", but having, at best, a most limited dimensional differentiation. The issue is whether the wearing apparel could be attributed to a single source if sold under similar marks. It is submitted that the tape measure is not the proper yardstick.

APPELLEES MISCONCEIVE AND MISCONSTRUE LAW AS TO REGISTRABILITY OF SURNAMES.

Commencing at page 20 of their brief appellees enter into an irrelevant discussion concerning registration of personal name marks. In doing so appellees make reference to appellant's pre-trial brief, which is not even before this Court. They fail to advise the Court that that portion of appellant's pre-trial brief was written in response to appellees' Memorandum of Contentions of Fact and Law, submitted to the trial court, wherein they erroneously argued that "Plaintiff does not have a valid trademark in either the designation 'Paul Sachs' or the designation 'Don Sachs' ". To quiet this unfounded charge, appellant made reference to the case **Ex Parte Andre Julian Dallioux** (Comr. Pats.—1949), 83 USPQ 262, which is only controlling as to the registrability under the Trade Mark Act of 1946 of marks comprised of a Christian and a surname. But such case is not controlling as to the matter of registrability of surnames pursuant to the provisions of 15 U. S. C. 1052 (f), which provides that nothing in the Act will prevent the registration of a mark which has become distinctive of the applicant's goods in commerce, and this holds whether the mark is simply a surname. Surnames alone are registrable under the Trade Mark Act of 1946, and the said provision, 15 U. S. C. 1052 (f), is nothing more than a latter-day refined legislative expression of the ten-year proviso of the Trade Mark Act of 1905, under which the plaintiff in **Thaddeus Davids Co. v. Davids** (Sup. Ct.—1915), 233 U. S. 461, 34 Sup. Ct. 648, 58 L. Ed. 1046, registered its surname mark "Davids"; said case being cited in appellees' brief. Thus appellees' discussion on this point has no relation to the issues in this case. In passing, it is to be noted that possibly through oversight appellees failed to take cognizance of the case of Girard-Perregaux & Cie., S. A. v. Perregaux (Comr. Pats.—1959), 122 USPQ 95, wherein it was held that "'Paul Perregaux' is likely to be confused with 'Girard Perregaux' and 'Perregaux'", both being used on watches. Therefore, the reference in appellees' brief at page 23 to **Ex Parte Perregaux** (1955), 106 USPQ 206, is without moment, as that holding was overruled.

CALIFORNIA APPAREL CREATORS CASE.

Appellees at page 68 of their brief charge that appellant ignored the holding of the Court of Appeals, 2nd Circuit, in **California Apparel Creators v. Wieder of California, Inc.** (CCA 2—1947), 162 F. 2d 893; 74 USPQ 221. Space alone prevented appellant from discussing this case, as it is most pleased to bring to the Court's attention the significance of that important decision. It appears that appellees have not studied same closely enough and inadvertently misconstrued same. By the out-of-context quotation appearing at page 69 of appellees' brief, it will be seen that the court in that case recognized that geographical names may develop secondary meaning with respect to "products of the soil" which have relative superior qualities because of climatic or other natural advantages; or with respect to a product of a single quality of generally recognized superiority which is produced in accordance with a peculiar patent or other special process. Certainly, the dresses of appellees are not products of the soil, nor are they of a single quality produced from a peculiar patent or other special process. As a matter of fact in that case, the court noted that the goods of the plaintiffs, California wearing apparel manufacturers, had "no apparent or obvious connection with the locality," and that there were no definite standards of quality or grading. Similarly in this case, appellant has contended that appellees have not shown that their dresses have any unique character, nor did witnesses produced by appellees seek to show conditions as to quality or the like among the members of the California Creators (see appellant's opening brief, page 57). Therefore, this case which appellees assert was ignored by appellant most strongly buttresses appellant's position.

GOOD FAITH NO DEFENSE.

Throughout their brief appellees respectfully contend that they adopted their mark in good faith, honestly, innocently, and without any intention to damage appellant. Consequently, by this theme appellees have sought to distinguish cases cited by appellant as though the unsuccessful parties therein were necessarily guilty of a deliberate, fraudulent intent to ride upon the coattails of the other parties. Trademark infringement and unfair competition actions are not criminal actions, so that the intent of a party does not control. By virtue of the constructive notice provision of the Trade Mark Act of 1946, the defense of good faith has been eliminated from cases of this type (see discussion at page 63 of appellant's opening brief). Furthermore, the cases are legion which show that good faith is no defense in common law unfair competition actions as well.

> "It is not essential to prove fraudulent intent. An injunction is proper if the natural consequences of defendant's conduct is such as to cause deception." **MacSweeney Enterprises v. Tarantino** (1951), 106 Cal. App. 2d 504, 513, 235 P. 2d 266.
>
> "It does not appear that an evil intent is necessary to relief." **Lane Bryant, Inc. v. Maternity Lane, Ltd.** (CA 9—1949), 173 F. 2d 559, 564, 81 USPQ 1.
>
> "It is not essential, however, to constitute unfair competition, that there be an actual intent to deceive or mislead the public * * *." **Harvey Machine Co. v. Harvey Aluminum Corp.** (N.Y.S.—1957), 9 Misc. 2d 1078, 1080, 113 USPQ 437.

It is the natural and probable result of appellees' conduct which is determinative, regardless of intent. Although appellees testified that they conferred with counsel, it was admitted that no investigation was made of the Patent Office records (RTR 64). Action pursuant to legal advice does not provide immunity.

> "Consultation with able counsel is no defense. An action contrary to established legal principles cannot withhold the arm of equity from imposing the just result required by the facts." **Bennett Bros., Inc. v. Floyd Bennett Farmers Market Corp.** (N. Y. SupCt—1960), 124 USPQ 345.

Conversely, appellant, before adopting its trademark DON SACHS, and despite its long usage of the trademark PAUL SACHS, did cause a Patent Office search first to be made (RTR 246). Incidentally, the application for registration of DON SACHS was **published** at least ten days before appellees commenced doing business, and not filed at that time, as erroneously stated at page 3 of appellees' brief.

USE OF SURNAME OF PARTNER NO DEFENSE.

Appellees defensively urge, that the name Sachs is a surname of one of their partners despite the fact that the District Court made no conclusion relative thereto. It is not to be overlooked that appellees constitute a partnership which is not "owned" by John Sachs, as appellees erroneously state as a so-called "uncontradicted fact" (Br. 3), so that in this case there is not an individual using his own name, but rather there is a plurality of individuals using the name of one of the group. None of the cases cited by appellees relate to the usage of the name of a partner. However, without regard to this distinction, the suggestion that use of one's surname as a trademark is inalienable is not supported by precedent. Appellees have conceded the following:

> "We fully recognized the rule that not even an individual can use his own name in such a manner as to cause confusion or deceive the public * * *" (Br. 36),

but then assert that honest usage of one's surname should entitle one to substantial equitable considerations. Here again appellees would excuse their use of their trademark solely upon the ground that they had no malevolent intent. In **Alexander Henderson v. Peter Henderson & Co.** (CCA 7—1925), 9 F. 2d 787, 16 T. M. Rep. 61, the defendant was enjoined from using his surname Henderson as a trademark upon packages of seeds by virtue of the prior use and registration of the name Henderson by plaintiff. The court, noting that the defendant stressed his good faith in adopting his trade name, effectively disregarded such protestations and stated (at page 789):

> "Such things may explain how it came about, and may tend to acquit appellant of moral turpitude in its use of the trade name, but this in no manner minimizes the effect upon appellees' trade rights, nor its remedy for their invasion."

In **Thaddeus Davids Co. v. Davids**, supra, the plaintiff had registered its trademark "Davids" under the ten-year proviso of the Trade Mark Act of 1905. In connection with the present case, the following statement by the court is apt (at page 471):

> "Moreover, in view of this statutory right [registration] it could not be considered necessary that the complainant, in order to establish infringement, should show wrongful intent in fact on the part of the defendant, or facts justifying the inference of such an intent."

Thus, the question of good faith has long been recognized as of no moment in cases involving surname-type trademarks as well as any other character of trademark, all as considered hereinabove at page 10.

As a further argument for use of the surname Sachs, appellees urge that "Sachs" is not a household word (Br. 39), as the following may be considered to be: "Dobbs," "Stetson," "Tiffany," "Waterman," "Brooks," etc., and imply that in view of this distinction there should be no barrier to their use of "Sachs." This view is not worthy of recognition, for if courts are to grant protection only to trademarks of companies with tremendous capital and sales volume, then more modest firms could not develop protectable property rights and would be subjected to piracy with impunity. Contrary to appellees' view, the case of **Brooks Bros. v. Brooks Clothing of California, Ltd.** D. C. S. C. Calif.—1945), 60 F. Supp. 442, 65 USPQ 301, is **not** distinguishable, but is most immediately in point. This case does not, as appellees contend, hold that only trademarks of large firms may be given the benefit of our trademark laws and the common law of unfair competition.

In **Thaddeus Davids Co. v. Davids**, supra, the defendant used "C. I. Davids" as a trademark, and such was held to infringe plaintiff's registration for "Davids." The defendant urged that he had a right to use his name in his business, but the Supreme Court observed that such a position would render the registration under the ten-year proviso of the Trade Mark Act of 1905 meaningless by stripping it of practical effect. The court stated, at pages 468, 471:

> "Having the right to register its mark, the complainant was entitled to its protection as a valid trademark under the statute."

In the **Alexander Henderson** case, supra, the court followed the **Thaddeus Davids case** and was consistent in recognizing the protection to be accorded a registered trademark which had a surname character. Also pertinent is **William P. Stark v. Stark Brothers Nurseries Co.** (CCA 8—1919), 257 F. 9, affirmed 255 U. S. 50, 65 L. Ed. 496, 41 Sup. Ct. 221, wherein the plaintiff's trademark "Stark Trees" was registered under the ten-year proviso of the Trade Mark Act of 1905 and was held by the court to be infringed by the defendant's use of the name "William P. Stark." The court stated, at page 12:

> "To justify a finding of infringement of a trademark it is not necessary that the similitude should be exact * * *."

In referring to the **Thaddeus Davids Co.** case, the court remarked:

> "The statutory right cannot be so narrowly limited. Not only exact reproduction, but a 'colorable

imitation,' is within the statute; otherwise, the trademark would be of little avail, as by shrewd simulation it could be appropriated with impunity."

The court therein was not impressed with descriptive wording decorating defendant's label, but was drawn to the critical word, namely "Stark", regarding its special emphasis and the vivid manner in which it suggested plaintiff's trademark "Stark Trees" (just as "SACHS" dominates "SACHS of California"). The holding by this court in the **Brooks Bros.** case, supra, that a trader will be protected in the use of a name "even against a newcomer having the same surname" (at page 450), is also held by other courts of the State of California. In **Hoyt Heater Co. v. Hoyt** (Calif. Dist. Ct. of App.—1945), 68 Cal. App. 2d 523, 157 P. 2d 657, 65 USPQ 294, the court stated (at page 527):

> "* * * one must use his own name honestly and not as a means of pirating the good will and reputation of a business rival; and where he cannot use his own name without inevitably representing his goods as those of another he may be enjoined from using his name in connection with his business."

Also to the same effect are the following:

> "* * * the **present trend of the law** is to enjoin the use even of a family name where such use tends or threatens to induce confusion in the public mind." (Emphasis ours.) **Sullivan v. Ed Sullivan Radio & T. V., Inc.** (N. Y. App. Div.—1956), 1 App. Div. 2d 609, 611, 110 USPQ 106.
>
> "* * * It is not essential that there be an actual intent to deceive or mislead the public. Higgins Co. v. Higgins Soap Co., 144 N. Y. 462. Nor is it any excuse that the defendant is using his own name or any part of it or that the parties are not in actual

competition or in identically the same line of business." **National Design Center, Inc. v. 53rd St. Design Centre, Inc.** (N. Y. S.—1960), 24 Misc. 2d 545, 203 N. Y. S. 2d 517, 519, 125 USPQ 596.

"Nor is it any excuse or justification that defendant is using his own name or any part of it, or that the parties are not in actual competition or in identically the same line of business. * * * The test is whether the use by defendants of plaintiff's name or mark is likely to confuse and mislead the public and injure plaintiffs' name, reputation, good will or business." **Harvey Machine Co. v. Harvey Aluminum Corporation** (N. Y. S.—1957), 9 Misc. 2d 1078, 1081.

Also pertinent are the cases of **MacSweeney Enterprises v. Tarantino,** supra, and **Winfield v. Charles** (1946), 77 Cal. App. 2d 64, 175 P. 2d 69, wherein the court noted that the use of one's name is not absolute. Also apt is **Hat Corporation of America v. D. L. Davis Corp.** (D. C. Conn.—1933), 4 F. Supp. 613, 19 USPQ 210, wherein the defendant was enjoined from using the trademark "William H. Dobbs" by reason of the prior use of "Dobbs" by plaintiff. The injunction went to the name "Dobbs" with or without initials. In considering the matter of utilizing limiting initials or the like, Judge Hincks stated (at p. 622):

"And, obviously, half-way limitations inadequate to prevent confusion, propagate litigation, devastating uncertainty in business, and a cynical reaction to the administration of law. **Such results cannot be justified by a false tenderness for the rights of the individual.**" (Emphasis ours.)

"To be sure, he is entitled to protection in all proper use of his name, but not to a use which, though true to the few fully informed, is false to the many who are only partially informed."

This statement of Judge Hincks presaged the modern concept that one does not have an unalterable, inalienable right to utilize one's name in his business, and that to effect equity, courts have the power to enjoin the use of surnames. Accordingly, appellees' position that they should not be held accountable for the dilution and potential destruction of appellant's trademarks merely because they are utilizing the surname of one of the partners, even if honestly, is without merit.

THIRD PARTY USAGE NO DEFENSE.

At pages 4 and 5 of their brief, appellees set forth a list of names which appeared in certain exhibits and attempt to conclude from such bare list that retail women customers have distinguished for many years between dress manufacturing firms having similar names. Such a conclusion is unwarranted for myriad reasons. Firstly, there was no evidence at all that any of the firms set forth in this list were actively in business; secondly, there was no evidence submitted as to the actual trademarks utilized by these firms; thirdly, there was no evidence as to the merchandise in which each of these parties dealt; fourthly, there was no evidence that these firms were not related through corporate structures, agreements, etc.; fifthly, there was no evidence that any of these firms had not been engaged in litigation; sixthly, there was no evidence from any women that they had not been confused by such names and nextly, there was no evidence as to the duration of existence of any of these firms for suggesting "many years."

Therefore, such list is incompetent to prove anything. One cannot overlook the implied *concession* of appellees that their mark "Sachs of California" is similar to "Paul Sachs" and "Don SACHS" (with or without "ORIGINAL") when they unfoundedly argue that women customers can differentiate between **substantially similar names.**

Furthermore, for the sake of discussion, if one were to assume that all of the names listed were for active companies, producing the same dimensionally proportioned dresses, such fact alone would not excuse appellees from violating the property rights of appellant. It has long been recognized that wrongs of others is no defense—**Richard Hudnut v. Du Barry of Hollywood, Inc.** (D. C. S. D. Calif.—1960), Docket No. 1345-59-MC., 127 USPQ 486, 50 T. M. Rep. 1219; **National Lead Company v. Wolfe et al.** (CCA 9—1955), 223 F. 2d 195, 105 USPQ 462; **Del Monte Special Food Company v. California Packing Corp.** (CCA 9—1929), 34 F. 2d 774, 3 USPQ 15.

BASIC MISCONCEPTIONS OF APPELLEES.

At pages 47 and 48 of their brief appellees refer to a conclusion reached by the trial court concerning the question of likelihood of confusion, and then, as though to support same, state that: " * * * in this circuit factual findings of this nature will not be reversed even though 'reasonable minds might differ' ". Appellees demonstrate a failure to make the fundamental distinction between a conclusion and a finding of fact, and their reference to **Audio Fidelity, Inc. v. High Fidelity Recordings, Inc.** (C.C.A. 9—1960), 283 F. 2d 551, 127 USPQ 306, emphasizes their misconception, as well as exemplifying their proclivity for taking matters out of context. The sentence in the opinion of that case following the quoted material in appellees' brief is most illuminating. The court stated, at page 557:

> "But the trial court, having become convinced that exact copying by appellee of appellant's design had taken place, applied an improper theory of law in

failing to rely on the inference created by such proof by copying."

Incidentally, this Court reversed the District Court's holding for the defendant in that case. It is submitted that the above-discussed case is most pertinent to appellant's position, as appellant maintains that the trial court failed to apply the proper theories of law since, through a seeming lack of appreciation of the issues, it did not draw the proper inferences from the facts.

* * *

Appellees urge that their trademark has developed secondary meaning (Br. 65) even though they failed to show any consumer acceptance whatever, much less volume of sales, amounts spent in advertising, etc. As a matter of fact, they did not even show evidence of continuous usage. Secondary meaning can only be obtained after considerable effort, and there was no suggestion of this from appellees' evidence. Appellees did not even approach meeting the criterion for secondary meaning set down by the United States Supreme Court, which is to show that customers are aware of the fact that "a single thing is coming from a single source." **Coca-Cola Co. v. Koke Co.** (Sup. Ct.—1920), 254 U. S. 143, 65 L. Ed. 189, 41 Sup. Ct. 113; see also **Callmann, The Law of Unfair Competition and Trade Marks,** 2nd Edition (Callahan & Company, 1950) page 1241.

* * *

The manner in which appellees have attempted to cope with numerous of the apposite citations in appellant's brief is most evasive. For instance, from pages 37 through 46, appellees discuss numerous of appellant's cases, but entirely without regard to the points which they support in appellant's brief. A similar effort is shown in pages 61 through 65, where certain of appellant's cases are considered, but without reference to the propositions for which they stand as presented in appellant's brief. Thus appellees would thereby *concede* that these cases do uphold their respective points in appellant's brief. Even though they are argued out of context in appellees' brief, their pertinency to appellant's position is undiminished.

* * *

For reasons difficult to determine, appellees have cited at pages 58 and 59 a plurality of cases dealing with the names of periodicals or magazines. In discussing those cases appellees failed to state the basis for a finding of non-infringement therein, since in each case relief was denied because the plaintiff had adopted such a descriptive term to distinguish its magazine that the same had no trade-mark significance.

> "It is difficult to conceive of a term ('Aviation') that would be more descriptive of the contents of the plaintiff's magazine. * * * The defendant, then, has not infringed the 'trademark,' for the plaintiff has no trademark, either under the statute or the common law." **McGraw-Hill Publishing Company v. American Aviation Associates** (CCA D. C.—1940), 117 F. 2d 293.
>
> "The confusion that existed was due to the fact that plaintiff selected descriptive words for its name." **Collegiate World Publishing Co. v. DuPont Publishing Co.** (D. C. Ill.—1926), 14 F. 2d 158.
>
> "The use of ordinary words, either alone or in combination, without more, to describe a publication, is not entitled to protection under the law of trade marks or unfair competition." **Palmer v. Gulf Publishing Co.** (D. C. S. C. Calif.—1948), 79 F. Supp. 731.

Therefore, it is obvious that these cases have no relationship to the present case, wherein appellant's trademarks are arbitrary and fanciful and hence non-descriptive.

* * *

At no less than four points in their brief appellees charge that appellant seeks a monopoly of the surname Sachs. Such a statement is not only inaccurate and misleading, but also inflammatory, the use of the word "monopoly" carrying an opprobrious connotation in today's economy. It is certain that this Court is aware that appellant is trying, in this action, to protect nothing more than property rights and goodwill, developed at tremendous effort and expense, in and to their trademarks as used upon ready-to-wear dresses. Appellant does not seek to prevent others from using the name Sachs in conjunction with merchandise or services which could not be confused as to source of origin with appellant's merchandise. The term "monopoly" has no place in suits of this character where the only aim is to inhibit the destruction of the most valuable assets, the trademarks, of one's business by another trader.

CONCLUSION.

Appellant reiterates its position that the record in this case demonstrates that appellees' use of "Sachs of California" on ready-to-wear dresses violates established, valuable property rights of appellant in and to its trademarks and trade name, so that appellant is entitled to the relief prayed. Wherefore, appellant urges that the decision of the District Court should be reversed.

Respectfully submitted,

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APPENDIX.

Patent Office Trademark Trial and Appeal Board

Cole of California, Inc. v. Richard J. Cole, Inc.

Decided June 25, 1963

Released Aug. 26, 1963

Trademarks

1. Identity and similarity—How determined—Purchasers and selling methods (§ 67.4071)

Fact that there may be an appreciable difference in retail cost of goods of parties is not controlling since prices are subject to change.

2. Marks and names subject to ownership—Names—Corporations of partnerships (§ 67.5213)

Marks and names subject to ownership—Names—Individuals (§ 67.5215)

Right to use one's own name in connection with his business does not extend to use thereof by corporation.

3. Marks and names subject to ownership—Names—Individuals (§ 67.5215)

When one elects to use his own name as a trademark, registrability thereof is subject to same considerations as other types of marks, i. e., registration can be refused under section 2 (d) of 1946 Act if it is identical with or so nearly resembles a name or mark previously used by another in connection with similar or closely related merchandise as to be likely to cause confusion.

4. Identity and similarity—Words—Similar (§ 67.4117)

"Coleknit By Richard Cole" so resembles "Cole" and "Cole of California" that confusion is likely.

5. Identity and similarity—How determined—Adding to other's mark (§ 67.4053)

Addition of name to one of two otherwise similar marks is not of itself sufficient to avoid likelihood of confusion.

Trademark opposition No. 41,443 by Cole of California, Inc., against Richard J. Cole, Inc., application, Serial No. 112,223, filed Jan. 23, 1961. Opposition sustained.

Blum, Moscovitz, Friedman & Blum, New York, N. Y., for Cole of California, Inc.

Samuel L. Orlinger and Philip G. Hilbert, both of New York, N. Y., for Richard J. Cole, Inc.

Before Leach, Waldstreicher, and Lefkowitz, Members.

Lefkowitz, Member.

An application has been filed by Richard J. Cole, Inc. to register "COLEKNIT BY RICHARD COLE" for ladies' and misses' dresses, coats, suits, skirts, blouses and shirts, use since October 20, 1960 being alleged.

Registration has been opposed by Cole of California, Inc., which alleges that "COLEKNIT BY RICHARD COLE" so resembles opposer's long prior used name "COLE" and mark "COLE OF CALIFORNIA" in connection with swim suits, beach wear and sportswear as to be likely, when applied to applicant's goods, to cause confusion or mistake or to deceive.

Only opposer has taken testimony.

According to its record, opposer has, since 1939, been engaged in the manufacture of swim suits, sun dresses, accessories, sportswear and the like which it has sold under the trademark "COLE OF CALIFORNIA." In addition, opposer has since that time used the name "COLE," per se, in its advertising and promotional material to identify both its business entity and the apparel sold thereby. Opposer's sportswear are sold to leading department stores and better quality wearing apparel shops located throughout the country. Opposer's sales have approximated three and a half to four and a half million dollars a year prior to 1961, and about five million dollars in 1961. Apparel identified by "COLE," per se, and "COLE OF CALIFORNIA" has been extensively advertised over the years through nationally distributed fashion magazines, newspapers, newspaper supplements, billboards, and direct mailing pieces, at a cost to opposer of upwards of two hundred and fifty thousand dollars a year.

Opposer is prior with respect to its use of "COLE," per se, and of "COLE OF CALIFORNIA." The goods of the parties, moreover, are in part identical in kind and otherwise comprise items of wearing apparel for women which ordinarily would be attributed to a single source if they were to be sold under the same or similar marks. Cf. General Shoe Corporation v. Lerner Bros. Mfg. Co., Inc., 117 USPQ 281 (CCPA, 1958); and Cambridge Rubber Company v. Cluett, Peabody & Co., Inc., 128 USPQ [1] 549 (CCPA, 1961). That there may be, as urged by applicant, an appreciable difference in the retail cost of the respective goods of the parties is not controlling herein since the price range of the merchandise of either party is subject to change at any time. See: Chester Barrie, Ltd. v. The Chester Laurie, Ltd., et al., 127 USPQ 255 (DC NY, 1960). The only question for determination herein is whether or not applicant's mark "COLEKNIT BY

RICHARD COLE" so resembles "COLE," per se and/or "COLE OF CALIFORNIA" as to be likely to cause confusion as to source.[1]

[2] It is opposer's contention that applicant's composite mark is dominated by "COLEKNIT" which is confusingly similar to its marks "COLE" and "COLE OF CALIFORNIA." Applicant, in turn, has urged in effect that "COLE" being a surname is not entitled to exclusive appropriation and that since "COLE" is the name of its president, it is entitled to the use and registration thereof. The right to use one's own name in connection with his business does not, however, extend to the use thereof by a corporation. See: Charles J. Donnelly, Inc. v. Donnelly Bros., Inc., et al., 137 [3] USPQ 677 (R. I. Sup. Ct., 1963). In any event, when one elects to use his own name as a trademark, the registrability thereof is subject to the same considerations as other types of marks. That is to say, registration can be refused under Section 2 (d) of the statute if it is identical with or so nearly resembles a name or mark previously used by another in connection with similar or closely related merchandise as to be likely to cause confusion or mistake or to deceive. See: Lewis W. Gillette v. Gillette Safety Razor Company, 18 USPQ 15 (CCPA, 1933); Thaddeus Davids Company v. Davids and Davids, 233 U. S. 461, 1914 C. D. 367; The J. B. Williams Co. v. Ernest W. Williams, 8 USPQ 539 (CCPA, 1931); Gerber Products Company v. Gerber, 109 USPQ 111 (Comr., 1956); and Schenley Industries, Inc. v. Battistoni, 112 USPQ 485 (Comr., 1957).

[4] In regard to applicant's mark "COLEKNIT BY RICHARD COLE," it is clear that "COLEKNIT" is the

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1 Opposer in an effort to show that confusion in trade has already occurred as a result of use by the parties of their respective marks has relied on testimony by its witness to the effect that she received numerous phone calls and inquiries as a result of an advertisement of "COLEKNITS". This statement alone is insufficient to support a conclusion that the inquiries were the direct result of purchaser confusion as to the marks of the parties.

designation by which purchasers would ordinarily identify applicant's goods as to source; and considering the nature of the term "KNIT," as applied to applicant's goods, the dominant feature of this designation is "COLE" which has long been used by opposer to identify itself and as the salient feature of the trademark "COLE OF CALIFORNIA," "OF CALIFORNIA" being a merely geographical notation. Although applicant's mark also comprises "BY RICHARD COLE," it is used therein in the nature of a trade name and would be so recognized by purchasers. It is [5] well established that the addition of a name to one of two otherwise similar marks is not of itself sufficient to avoid the likelihood of confusion. See: Menendez et al. v. Holt et al., 128 U. S. 514 (1888); Celanese Corporation of America v. E. I. du Pont de Nemours & Company, 69 USPQ 69 (CCPA, 1946); and Miles Shoes Incorporated v. R. H. Macy & Co., Inc., 95 USPQ 170 (CA 2, 1952). It is therefore concluded that the resemblances between the marks are such that confusion as to the origin of the goods sold thereunder is reasonably likely to occur.

Applicant has relied on the decision in Paul Sachs Originals Co. v. Sachs et al., 137 USPQ 240 (DC, Calif., 1963), wherein the court held that "SACHS OF CALIFORNIA" is not likely to be confused with "PAUL SACHS ORIGINAL," "DON SACHS ORIGINAL" or "DON SACHS." That decision was necessarily based upon the particular facts and circumstances adduced therein and in no way precludes a finding of likelihood of confusion based on the facts disclosed in this proceeding.

Decision

The opposition is sustained; and registration to applicant is refused.

NO. 1 8 7 7 5

IN THE

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

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ALBERT LAPIN and LAPINAL, INC.,

Appellants,

vs.

SHULTON, INC., and TECNIQUE, INC.,

Appellees.

APPELLANTS' OPENING BRIEF

APPEAL FROM
THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF CALIFORNIA
CENTRAL DIVISION

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TOPICAL INDEX

TOPICAL INDEX (Continued)

TABLE OF AUTHORITIES CITED

NO. 18775

IN THE

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

ALBERT LAPIN and LAPINAL, INC.,

Appellants,

vs.

SHULTON, INC., and TECNIQUE, INC.,

Appellees.

APPELLANTS' OPENING BRIEF

JURISDICTIONAL STATEMENT

This is an appeal from an order of the United States District Court for the Southern District of California, Central Division, entered on December 4, 1962 (motion for rehearing under Rule 59, F.R.C.P., denied by order entered April 29, 1963) dismissing the complaint herein. The action was brought under Rule 60(b) of the Federal Rules of Civil Procedure for relief from an injunction issued on July 5, 1951, by the United States District Court for the District of Minnesota, on the ground that because of changed circumstances it is no longer equitable that the

judgment of the Minnesota Court should have prospective application.

Appellants, on May 27, 1963, filed a timely notice of appeal and this Court's jurisdiction rests upon 28 U.S.C., Section 1291.

STATEMENT OF THE CASE

The Minnesota Decree - 1951

The appellants have brought this case under Rule 60(b) of the Federal Rules of Civil Procedure, to dissolve an injunction issued on July 5, 1951, by the United States District Court for the District of Minnesota in Civil Action File No. 3232. After a trial in which the Lapins (appellants' predecessor in interest) had attempted to terminate an exclusive license agreement for the manufacture of a hair coloring preparation and La Maur, Inc. (appellee Shulton's predecessor in interest) had resisted the termination and counterclaimed for injunctive relief to enforce its exclusive license agreement, the Trial Court in Minnesota issued the original injunction on December 30, 1950, as follows:

> "Now, therefore, pursuant thereto, you, Albert Lapin, Isadore Lapin, Samuel Lapin and Harold Lapin, and each of you, your agents, servants, employees and attorneys, and all persons in active concert or participation with you, including Lapinol, Inc., a California corporation, and its successors or assigns, hereby

are jointly and severally commanded forthwith to cease and desist from, and are enjoined and prohibited from directly or indirectly further manufacturing, producing, compounding, making, preparing, selling, delivering, disposing of, or distributing 'Lapinal' hair-dye or any other hair-dye made by or in accordance with or covered by the formula and/or formulas and process which is the subject matter of the License Agreement of November 22, 1947, between Albert Lapin, Isadore Lapin, Samuel Lapin and Harold Lapin as parties of the first part, and La Maur, Inc., as party of the second part, or any improvement therein or thereof, including the use of any ingredient added by defendant La Maur, Inc., on or about and since February 13, 1948; and from, directly or indirectly licensing, causing, consenting to, or assisting or cooperating in, the same by any person, party, firm or corporation other than said defendant; and are further enjoined and prohibited from, directly or indirectly, disclosing or causing to be disclosed, said formula and/or formulas or process or any improvement therein to any person, party, firm or corporation other than said defendant, <u>so long as the said License Agreement remains in force and effect.</u>" (R. p. 3 and 4) (Emphasis added)

Over six months later, the District Court on July 5, 1951, pursuant to settlement stipulation of the parties, entered an Amendment and Modification of Findings of Fact,

Conclusions of Law and order and decree granting an amended writ of injunction as follows:

"Now, therefore, pursuant thereto you, Albert Lapin, Isadore Lapin, Samuel Lapin and Harold Lapin, and each of you, and your agents, servants, employees and attorneys, and all persons in active concert or participation with you or them, including Lapinol, Inc., a California corporation, also known as LapinAl, and its successors and assigns, hereby are, jointly and severally, enjoined and prohibited from selling, transferring, assigning, divulging or disposing in any manner whatsoever, directly or indirectly, to any other person, firm or corporation, including any and all persons other than you Albert Lapin, Isadore Lapin, Samuel Lapin and Harold Lapin yourselves, who now or hereafter are or may become interested in said LAPINOL, INC. or its successors or assigns, whether as investors, money-lenders, agents, employees or otherwise the formula or formulas or process for the manufacture of 'LAPINOL' hair dye, also known as 'LapinAL', or any other hair dye, or hair coloring or hair tinting products or process now known to or hereafter devised by you or any of you, made by or in accordance with or covered by the formulas and process which are the subject matter of the License Agreement of November 22, 1947 between you as parties of the first part and La Maur, Inc., as party of the second part (of which Exhibit 'A' attached to the Complaint in this case is a copy), or any improvements therein or thereof, or any interest or right in any of the foregoing; and are further, jointly and severally, enjoined and prohibited from licensing, authorizing, causing, consenting to, assisting or suffering, directly or indirectly, any person, firm or corporation, to manufacture, produce, compound or sell, or distribute 'LAPINOL' hair dye, also known as 'LapinAL', or any other hair dye or hair coloring or hair tinting products or process now known to or hereafter devised by you or any of you, made by or in accordance with or covered by the formulas and process which are the subject matter of said License Agreement, or any improvements therein; and are further, jointly and severally, enjoined and prohibited from divulging or disclosing or causing to be divulged or disclosed, directly or indirectly, to any person, firm or corporation whatsoever the secret formula or process for the manufacture of 'Tecnique', or any changes or improvements therein made or to be made by defendant La Maur, Inc., but are jointly and severally commanded and enjoined to keep the same forever in strict confidence and secrecy.

Provided, however, that the foregoing restraint, prohibition and command shall not be construed to prevent you, Albert Lapin individually or through the instrumentality of said LAPINOL, INC. from manufacturing 'LAPINOL' or 'LapinAL', or any other hair dye or hair coloring or hair tinting product other than 'Tecnique', or from selling the same in the usual course of the beauty trade for so long, but only so long, as you, Albert Lapin, Isadore Lapin, Samuel Lapin and Harold Lapin, and each of you, and your agents, servants, employees and attorneys, and all persons in active concert or participation with you or them and said LAPINOL, INC. shall refrain from violating the foregoing injunctions, prohibitions and commands, and for so long, but only so long, as said LAPINOL, INC. shall remain a corporation with the majority of each class of shares of stock or other securities issued by it owned and held by you, Albert Lapin, to your own account, free and clear of any encumbrances, restrictions and agreements, and you, Albert Lapin, continue as its principal officer; and on the additional condition that you, Albert Lapin, and/or said LAPINOL, INC. shall not adopt or use the name 'TECNIQUE' or any name resembling or similar to the word 'TECNIQUE', or resembling or similar to any other name or mark used by defendant LA MAUR, INC." (R. p. 4, lines 26-32, p. 5 and lines 1-29 of p. 6).

The Sale to Shulton

There was no further change in the legal situation until 1959 when the following events transpired:

(a) On August 19, 1959, a Certificate of Incorporation of Tecnique, Inc., New Jersey, was filed;

(b) On the same day, stock purchase agreements, dated August 19, 1959, provided, in general, for the sale of all of the Tecnique (Minnesota) preferred stock by La Maur, Inc. (R. p. 164, lines 22-24) and for the sale of all of the common stock by Maurice L. Spiegel, Walter C. Samith and Sigmond Pass (R. p. 164, lines 28-31).

By this transaction, La Maur, Inc. received $50,000 on the sale of its preferred stock, and, as its cost basis thereon was $2,730, La Maur realized a long-term capital gain, after expenses in connection with the sale of $45,587. Shulton, Inc., also acquired at the time it purchased La Maur's preferred stock, all of the common stock of Tecnique (Minnesota) for an undisclosed additional price. These are the statements of La Maur, Inc., and Leonard, Street & Deinard, its counsel (R. p. 243, 244) in a prospectus filed with the Securities & Exchange Commission in the Spring of 1962. The assets of Tecnique (Minnesota) seem to have been substantially the same as those purchased from appellants and their predecessors in interest in 1951. (Rep. Tr., p. 32, lines 22 to 25)

<u>The Complaint</u>

On July 7, 1962, appellants filed this complaint alleging that both Shulton and Tecnique (New Jersey) maintain places of business in Los Angeles County (R. p. 2, lines 28-30); that Tecnique is the wholly owned subsidiary of Shulton (R. p. 2, lines 25-28); there is in existance an injunction or consent decree (R. p. 4, lines 22-32, p. 5, and p. 6, lines 1-29); that Shulton has a consolidated net worth in excess of $28,000,000 and consolidated sales in excess of $57,000,000 (R. P. 7, lines 10-12) while appellant Lapinal, Inc., which has been manufacturing Lapinal since 1951, has a net worth of approximately

$110,000 and sales of $360 000 (R. p. 7, lines 13 to 19) and that changed conditions arising since the issuance of the injunction of 1951 have made its prospective application inequitable and oppressive to appellants and of no legitimate benefit to appellees (R. p. 7, lines 21-24).

The Answer

On August 12, 1962, appellees filed a joint answer to the complaint which, in addition to denials, raised affirmative defenses to the effect that the relief sought for could only be granted in the United States District Court for the District of Minnesota; that Tecnique (New Jersey) was not validly served; that Tecnique (New Jersey) is an indispensable party to the maintenance of the action and that the complaint fails to state a claim upon which relief can be granted (R. p. 20 and 21).

The Interrogatories

On September 6, 1962, appellants served on appellees a series of 124 interrogatories (R. p. 100 to 123, incl.) as the first step in its discovery upon the issues raised by the answer of the appellees as to the jurisdiction of the Court. These interrogatories were designed to elicit information as to evidentiary documents and witnesses with particular reference to the issues raised by the appellees as follows:

(1) Whether or not Tecnique (New Jersey) was an indispensable party and, as a prelude thereto, to es-

tablish the identity, the financing and management of Tecnique and the extent of its interest in the subject matter of the litigation.

(2) Whether or not Tecnique (New Jersey) had any corporate existence separate from Shulton, Inc., or whether or not Tecnique, New Jersey, was the alter ego or instrumentality of Shulton, Inc.;

(3) Whether or not Tecnique, Inc. did any business in Southern California and, if so, the nature and extent of such business;

(4) Whether or not any agency relationship existed between the appellees (R. p. 125-149).

On October 15, 1962, appellees filed objections to appellants' interrogatories 26 and 42 to 124, inclusive, and on October 26, 1962 appellees filed its answers to appellants' interrogatories 1 to 41 (R. p. 159 to 168).

Appellees had also filed interrogatories on October 23, 1962 (R. p. 152 to 157) and appellants filed their objections to appellees' interrogatories on November 1, 1962 (R. p. 171 to 176).

<u>The Motion to Dismiss</u>

While the foregoing matters were pending, appellees on November 14, 1962, three months after the filing of their joint answer, filed a motion to dismiss the complaint (R. p. 180) on the following two grounds:

(1) The purported service of process upon

appellee Tecnique, Inc., a New Jersey corporation, was ineffective and invalid; and

(2) Appellee Tecnique, Inc. is an indispensable party to the action and since service was ineffective, no valid or enforceable decree could be entered in the case.

On November 20, 1962, there were the following matters scheduled to be heard by the trial court: motion to dismiss the complaint, appellees' objections to appellants' interrogatories, appellants' objections to appellees' interrogatories and a motion by appellees for leave to file an amended answer (Rep. Tr. p. 3, lines 21-25 and page 4, line 1). There was also at the hearing, an oral motion by Melvin H. Siegal, a Minneapolis attorneys representing the appellees, to quash a subpoena and notice of the taking of his deposition under Rule 30(b) of Federal Rules of Civil Procedure (Rep. Tr. p. 5, lines 24-25, p. 6, lines 1-4). All of these matters were held in abeyance and the District Court ruled only on the motion to dismiss.

The Order Dismissing the Complaint

On December 4, 1962, there was entered an order granting the appellees' motion to dismiss (R. p. 225-227), in which the District Court, relying entirely upon affidavits, dismissed the complaint on the grounds that

(a) Mr. Breiseth, Regional Manager of appellee

Shulton, Inc., had stated in an affidavit that he was not connected in any way with Tecnique (New Jersey) which is not licensed to do business and which does not do business in California (R. p. 225 lines 27-32);

(b) It appears that Tecnique is the owner of the decree of injunction sought to be dissolved and therefore an indispensable party (R. p. 226, lines 7-9);

(c) The Court found that there was no proper service upon Tecnique, an indispensable party (R. p. 227, lines 19-29).

Appellants' Rule 59 Motion

On December 12, 1962, appellants moved to amend and modify the judgment pursuant to Rule 59, Federal Rules of Civil Procedure, as follows:

1. For a rehearing under Rule 59 of the Federal Rules of Civil Procedure on the appellees' motion to dismiss the complaint;

2. To open the judgment and to take additional evidence by deposition or affidavit under Rule 59(a) (2);

3. For a plenary trial upon the jurisdictional issue raised by the appellees' motion to dismiss;

4. To alter or amend the judgment heretofore entered (R. p. 234).

This motion was supported by an affidavit of F. G. Stapleton with exhibits (R. p. 236 to 255, incl.) and a

Statement of Reasons and Memorandum of Points and Authorities (R. p. 256 to 264). The appellees, in opposition, filed certain additional affidavits (R. p. 265 to 271, incl.).

The Order Denying Appellants' Rule 59 Motion

On April 29, 1963, the District Court entered its Memorandum and Order (R. p. 273 to 278, incl.) which, in essence, rejected all of the contentions of the appellants' Rule 59 motion except that the judgment was modified to read "with prejudice." Thereafter, this appeal was taken.

SPECIFICATION OF ERROR RELIED ON

1. The District Court erred in granting judgment to appellees, dismissing the complaint;

2. The District Court erred in concluding that appellee Tecnique, Inc., a New Jersey corporation, is the apparent owner of the injunction sought to be dissolved;

3. The District Court erred in concluding that the appellee Tecnique, Inc., was an indispensable party to the action;

4. The District Court erred in concluding that there was no proper service upon appellee Tecnique, Inc.;

5. The District Court erred in concluding that the corporate separation between the corporate appellees is real and not mere fiction;

6. The District Court erred in concluding that the relief sought by appellants should only be sought by

motion in the District Court where the original decree was issued;

7. The District Court erred in denying appellants a reasonable opportunity to complete its discovery as to the facts placed in issue by appellees on the issue of jurisdiction;

8. The District Court erred in denying appellants' right to a plenary trial.

QUESTIONS PRESENTED

I Whether the District Court, on the appellees' motion to dismiss made after the answer had been filed and based upon statements in self-serving affidavits which were controverted by appellants, was correct in determining as a matter of law that:

(a) Appellee Tecnique had title to and was the owner or apparent owner of a formula for a hair dye and of certain rights flowing from an assignment of an injunction; and

(b) Appellee Shulton was not the agent of appellee Tecnique where Shulton owns all the stock of Tecnique, where Tecnique operates out of Shulton's plant in New Jersey, where both corporations have common directors and officers and where Shulton operates under an oral agreement with Tecnique; and

(c) Appellee Tecnique was not doing business in the District; and

(d) The separation between the corporate appellee Shulton and the corporate appellee Tecnique was real and that Tecnique was not the alter ego of Shulton;

(e) Based on the foregoing, appellee Tecnique was an indispensable party not properly served; where appellees had answered only 40 out of 124 interrogatories served by appellants after the answer but before the motion to dismiss had been served and where appellants were denied any discovery after the motion to dismiss.

II. Whether the District Court, on the appellees' motion to dismiss made after the answer had been filed and based upon statements in self-serving affidavits which were controverted by appellants, was correct in granting the motion to dismiss and denying appellants' motion for a plenary trial where the issues raised by the appellants' motion were substantive issues in the case as well as jurisdictional issues.

SUMMARY OF ARGUMENT

Three months after the answer had been served and the case was at issue, appellees made a motion to dismiss on the ground that Tecnique (New Jersey) was an indispensable party who had not been properly served. The evidence offered by the appellees in support of this motion consisted of two affidavits by Nicholas J. Livoti (R. p. 187 and 190) who is the Assistant Secretary of the

appellee Shulton and Secretary of the appellee Tecnique (New Jersey) and an affidavit by Norton M. Breiseth, Regional Manager of appellee Shulton in California and ten western states (R. p. 183-184). Appellants controverted this evidence by affidavit and exhibits (R. p. 236-241, incl.).

In arriving at this conclusion and in dismissing the complaint, the District Court held:

(a) That Tecnique (New Jersey) was the owner of a formula for hair dye and of certain rights under an injunction issued to La Maur, Inc., by the United States District Court of Minnesota on July 5, 1951, which formula and rights had been assigned on December 17, 1959, by La Maur to Tecnique (Minnesota) and again assigned on December 18, 1959, by Tecnique (Minnesota) to Tecnique (New Jersey), thus necessarily passing on the legal sufficiency and effect of two assignments of rights under an injunction;

(b) That Tecnique, New Jersey, was not doing business in the district;

(c) That appellee Shulton was not the agent of Tecnique (New Jersey) although Shulton owns all the stock of Tecnique (New Jersey); Tecnique (New Jersey) operates out of the Shulton plant in New Jersey; both corporations have common officers and directors and Shulton operates under an oral license agreement with

Tecnique (New Jersey);

(d) That the corporate separation between the appellees Shulton and Tecnique (New Jersey) was real and that Tecnique (New Jersey) was not the alter ego of Shulton.

Appellants contend the judgment of dismissal should be reversed because:

(1) The Court's conclusions were not supported either by fact or law in holding that Tecnique (New Jersey) was an indispensable party;

(2) Appellants have a clear right to a plenary trial where the factual merits of the case must be considered in deciding the jurisdictional issue; and

(3) The Trial Court refused to allow the appellants any discovery as to the jurisdictional issues which were raised by the appellees' motion to dismiss.

I

THE DISTRICT COURT'S CONCLUSION THAT TECNIQUE (NEW JERSEY) IS AN INDISPENSABLE PARTY WHO HAD NOT BEEN EFFECTIVELY SERVED IS NOT SUPPORTED BY THE EVIDENCE.

An Analysis of the Appellees' Evidence:

In the first order (dated November 30, 1962) on the motion to dismiss, the District Court enumerated the evidence in support of its order, as follows:

(a) An affidavit by Norton M. Breiseth, Regional Manager of Shulton, Inc., in which he stated that he "is not connected in any way with the other defendant Tecnique, Inc." (R. p. 225, lines 25-29). Yet Breiseth, after this disclaimer, proceeds to describe Tecnique as a New Jersey corporation not licensed to do business in California and does not have solicitors, employees, salesmen or other representatives in California (R. p. 183-184).

(b) An affidavit by Nicholas J. Livoti who is both Secretary of Tecnique, Inc. and Assistant Secretary of Shulton, Inc., from which it appears that appellees are separate and distinct corporations, although Tecnique (New Jersey) is a wholly owned subsidiary of appellee Shulton, Inc. (R. p. 226, lines 1-6).

(c) No evidence is cited in the opinion in support of the District Court's conclusion that "Tecnique, Inc. is the owner of the decree of injunction sought to be dissolved by this action and is therefore an indispensable party (R. p. 226, lines 7-9), although the Court had before it and presumably considered Exhibits B through E to the affidavit of Nicholas J. Livoti as follows:

(1) Exhibit B, Bill of Sale dated December 17, 1959, from La Maur, Inc. to Tecnique, Inc., a Minnesota corporation (R. p. 192-193);

(2) Exhibit C, Bill of Sale dated December 18, 1959, from Tecnique, Inc., a Minnesota corporation, to Tecnique, Inc., a New Jersey corporation (R. p. 194, 195);

(3) Exhibit D, Assignment dated December 17, 1959, of judgment and decree from La Maur, Inc. to Tecnique, Inc., a Minnesota corporation (R. p. 196-197);

(4) Exhibit E, Assignment dated December 18, 1959, of judgment and decree from Tecnique, Inc., a Minnesota corporation, to Tecnique, Inc., a New Jersey corporation (R. p. 198-199).

(d) No evidence is cited in support of the Court's conclusion that the corporate separation between the two appellees is real and not mere fiction and should not be ignored to determine jurisdiction (R. p. 226, lines 14-16).

In response to appellants' motion under Rule 59 (R. p. 234), the appellees supplemented their evidence by an affidavit by John K. Bangs, House Counsel for Shulton, Inc. (R. p. 265 to 267) and a further affidavit by Norton M. Breiseth (R. P. 270-271). The affidavit of Bangs, the House Counsel, after reciting that he was "fully aware of the legal affairs" of the appellees (R. p. 266, line 11) described the relationship of Tecnique (New Jersey) and Shulton as follows:

"Shulton, Inc. caused the organization of a New Jersey corporation, Tecnique, Inc., for the purpose of acquiring and continuing the business of Tecnique, Inc., a Minnesota corporation. Tecnique, Inc. (New Jersey) purchased all of the stock of Tecnique Inc. (Minnesota) and thereafterwards caused the dissolution of Tecnique Inc. (Minnesota) with distribution of all of its business and assets in liquidation to Tecnique Inc. (New Jersey) as sole shareholder." (R. p. 266, lines 13-18)

This then was the evidence in support of the motion to dismiss before the District Court. It consists of affidavits of Livoti, the Assistant Secretary of Shulton, Inc. of Bangs, the House Counsel for Shulton, Inc., and of Breiseth, the Western Regional Manager for Shulton, Inc., all of whom, as employees of Shulton, have an obvious interest in the outcome of this litigation.

Since the appellees' motion to dismiss was predicated upon the assertion that Tecnique (New Jersey) was an indispensable party, it became necessary to determine who Tecnique (New Jersey) was and what was the nature and extent of its substantial interest. Although the appellants were denied any discovery after the motion to dismiss was served, the following evidence was placed before the Court in opposition to the motion to dismiss:

1. Tecnique (New Jersey) was organized by the appellee Shulton on August 19, 1959 (appellees' answer to appellants' interrogatory 20, R. p. 164, lines 11-13) for the purpose of acquiring and continuing the business of Tecnique (Minnesota) (Bangs' affidavit, R. p. 266, lines 12 to 14). This was the same day on which

stock purchase agreements for the sale of the stock of Tecnique (Minnesota) were executed (appellees' answer to appellants' interrogatory 28, R. P. 165, lines 11-17).

2. The Bill of Sale from La Maur, Inc. to Tecnique (Minnesota) (R. p. 192-193) and the assignment of the judgment and decree from La Maur, Inc., to Tecnique (Minnesota) were dated December 17, 1959, eight years after the injunction had issued and four months after La Maur, Inc. had sold its shares in Tecnique (Minnesota)

3. The Bill of Sale from Tecnique (Minnesota) to Tecnique (New Jersey) (R. p. 194-195 was executed by Richard M. Parks and Nicholas J. Livoti. Parks was not only a Vice President and Director of Shulton (appellees' answer to appellants' interrogatories 16 and 17, R. p. 163, lines 8-9 and 29) but also a Vice President of Tecnique (Minnesota) (R. P. 195) and a Vice President of Tecnique (New Jersey) (R. p. 162, lines 20-25). Nicholas J. Livoti was not only an Assistant Secretary of Shulton (R. p. 163, lines 21-22) but was also Secretary of Tecnique (Minnesota) (R. p. 195) and Secretary of Tecnique (New Jersey) (R. p. 162, line 24). These gentlemen simultaneously represented both parties to this transaction and the sole shareholder of both the assgnor and the assignee at the same time.

4. At the time of the execution of the said Bills of Sale and Assignment in December, 1959, the

appellee Shulton not only owned all of the shares of stock of Tecnique (Minnesota), the assignor, but also owned all of the shares of stock of Tecnique (New Jersey), the assignee. The individuals who acted for the assignor, Tecnique (Minnesota) and for the assignee Tecnique (New Jersey) were both corporate officers of Shulton and one was also a member of the Board of Directors of Shulton.

5. In addition to the documents themselves, the transaction by which La Maur, Inc. sold its shares in Tecnique (Minnesota) was described once by La Maur and once by Shulton in the public records of the Securities & Exchange Commission (see letter dated August 24, 1962, from Raymond J. Sullivan, Chief, Public Reference and Correspondence Section, Securities & Exchange Commission, R. p. 242).

(a) In the Spring of 1962, La Maur, Inc., through Paine, Weber, Jackson & Curtis, Stockbrokers, undertook a substantial public offering of its shares and filed a Registration Statement with the Securities & Exchange Commission. This filing occurred more than two years after the stock sale to Shulton but, in accordance with the requirement of the Commission, the transaction was described at length as follows:

"In 1959 the Company sold to Shulton, Inc., a

cosmetics manufacturer, its preferred stock in a corporation known as Tecnique, Inc., a distributor of permanent hair coloring products, a hair lightener and a hand cream. The Company received $50,000 on the sale of its stock and, as its cost basis therein was $2,730 the Company realized a long-term capital gain, after expenses in connection with the sale, of $45,487. Shulton, Inc., also acquired at the time it purchased the Company's preferred stock in Tecnique, Inc., all of the common stock thereof.

"The Common Stock of Tecnique, Inc. was owned as follows: Maurice L. Spiegel--70%, Walter C. Smith--15%, Sigmund B. Pass, an unaffiliated person--15%.

"The Company did all of the manufacturing of Tecnique's products under an arrangement whereby the Company was paid its costs plus 10% plus a percentage of certain other operating costs. The percentages of the Company's sales to Tecnique to the Company's total sales in the calendar years 1957, 1958 and 1959 were as follows:

Year	Percentage of Company's Sales to Tecnique to Company's Total Sales
1957	5.85
1958	5.12
1959	4.59

"In connection with the sale of the Tecnique stock, the Company gave to Shulton, Inc. a covenant not to compete, under which the Company agreed, in essence: that it would not for a period of 25 years manufacture, sell, distribute or license any products under the label of 'Tecnique' nor for such 25-year period would it use the word 'Tecnique' alone or in conjunction with other words; and that, for a period of 5 years, it would not manufacture, sell, distribute or license any permanent hair coloring, as distinguished from a temporary hair coloring; and that, for a period of 5 years, it would not manufacture, sell, distribute or license any products for the retail trade competitive with any product marketed by Tecnique for the retail trade at the time of the above sale of that company's preferred stock. As indicated by the

above, the products that were then marketed by Tecnique to the retail trade were permanent hair coloring products, a hair lightener and a hand cream." (R. p. 243 and 244)

This is a clear and unequivocal statement by La Maur, the seller of the shares of Tecnique (Minnesota) that the buyer of the shares was Shulton; that a restrictive covenant was given by La Maur to Shulton and there is no mention whatever of Tecnique (New Jersey).

(b) The Form 10K (Annual Report) filed by Shulton, Inc., for the year 1959, in accordance with Section 15(d) of the Securities & Exchange Act of 1934 and Rule X-15D-1 of the General Rules and Regulations under the Securities Act of 1934, within 120 days after the close of the year, was also before the trial court (R. p. 245). In this form, prepared and filed before this litigation was commenced, Shulton stated that it acquired all of the capital stock of Tecnique (Minnesota); that it (Shulton) dissolved Tecnique (Minnesota) and the assets were subsequently conveyed to and its liabilities were subsequently assumed by Tecnique (New Jersey).

These statements, made independently by La Maur, the seller, and Shulton, the buyer, before this litigation was commenced and in official reports to a

regulatory agency of the United States Government, directly refute the sworn statements of Mr. Livoti to the effect that Tecnique (New Jersey) acquired all of the stock of Tecnique (Minnesota) (R. p. 164, lines 14-17) and that Shulton did not acquire all of the stock of Tecnique (Minnesota) (R. p. 18-21). It also refutes the affidavit of Mr. Bangs, House Counsel for Shulton, in which he states that Tecnique (New Jersey) purchased the shares of Tecnique (Minnesota) (R. p. 266, lines 12-18) although Mr. Bangs may perhaps be excused since he is discussing a transaction which occurred (August, 1959) before he became employed by Shulton (September, 1959).

Further support for the appellants' claim that Shulton was the real party in interest and the actual purchaser of the shares of Tecnique (Minnesota) comes from Mr. Melvin Siegel of the Minneapolis firm of Leonard, Street and Deinard who was admitted specially to argue the motion to dismiss before the District Court. After counsel for the appellants had presented to the Court the records of the Securities & Exchange Commission contradicting not only the answer (R. p. 18 line 32, p. 19, lines 1-3) but also the affidavit of Mr. Bangs (R. p. 266, lines 12-18) and appellees' answer to appellants' interrogatories 21 and 22 (R. p. 164, lines 14-21), Mr. Siegel confirmed the appellants'

contentions in the following language:

> "I do want to comment as to the statements that were made, though they were not called to my attention by way of service of affidavit, but I am familiar with the facts. And since he has seen fit to call your Honor's attention to documents which have not even been called to your Honor's attention, let me state what I think appears in the answers to the interrogatories as to how the sale took place.
>
> "Shulton purchased from La Maur all of the stock which La Maur held in Tecnique of Minnesota. And it also purchased from Tecnique of Minnesota all of Tecnique of Minnesota's stock.
>
> "Consequently, Tecnique of Minnesota then and there became a 100 per cent owned subsidiary of Shulton, just as Tecnique of New Jersey now is.
>
> "So it is true that La Maur did sell its stock interest in Tecnique of Minnesota to Shulton, and Tecnique of Minnesota sold its stock interest to Shulton." (Rep. Tr., p. 64, line 16 to p. 65, line 7)

In the light of the sworn statement by the seller, La Maur, that it sold the shares of Tecnique (Minnesota) to Shulton and the statement by Shulton, the buyer, that it purchased the shares of Tecnique (Minnesota) and the statement of Mr. Siegel, it is extremely difficult for us to see how the District Court could have found in Tecnique (New Jersey) an interest in the subject matter of this litigation of such substance as to render it an indispensable party where Shulton is already a defendant and admittedly before this Court.

6. Tecnique (New Jersey) has no manufacturing facilities separate from Shulton, Inc. (appellees'

answer to appellants' interrogatory 11, R. p. 161 lines 26 to 29).

7. Tecnique (New Jersey) has no warehouse or storage facilities separate from Shulton, Inc. (appellees' answer to appellants' interrogatory 12, R. p. 161, lines 30-32 and page 162, line 1).

8. Tecnique (New Jersey) occupies the same business premises as Shulton, Inc. in Passaic, New Jersey (appellees' answer to appellants' interrogatory 6, R. p. 161, lines 1-4).

9. The following are officers and directors common to Shulton, Inc., Tecnique (New Jersey) and, in part, Tecnique (Minnesota):

(a) Richard N. Parks is Vice President of Tecnique (New Jersey) (appellees' answer to appellants' interrogatory 14, R. p. 162, line 23); Vice President of Shulton, Inc. (appellees' answer to appellants' interrogatory 16, R. p. 163, lines 8-9); a member of the Board of Directors of Shulton, Inc. (appellees' answer to appellants' interrogatory 17, R. p. 163, line 29); and was a Vice President of Tecnique, Inc., Minnesota as of December 18, 1959, (see Bill of Sale December 18, 1959, from Tecnique, Inc. Minnesota to Tecnique, Inc. New Jersey, Exhibit C to affidavit of Nicholas J. Livot in support of appellees' motion to dismiss, R. p. 195).

(b) Nicholas J. Livoti is Secretary of Tecnique, Inc., New Jersey (appellees' answer to appellants' interrogatory 14, R. p. 162, line 24); Assistant Secretary of Shulton, Inc. (appellees' answer to appellants' interrogatory 16, R. p. 163, lines 21-22); and was Secretary of Tecnique, Inc., Minnesota, as of December 18, 1959 (see Bill of Sale December 18, 1959, from Tecnique, Inc., Minnesota, to Tecnique, Inc., New Jersey, Exhibit C to affidavit of Nicholas J. Livoti in support of appellees' motion to dismiss, R. p. 195).

(c) William H. O'Brien is Treasurer of Tecnique, Inc., New Jersey (appellees' answer to appellants' interrogatory 14, R. p. 162, line 25); a member of the Board of Directors of Tecnique, Inc., New Jersey, (appellees' answer to appellants' interrogatory 15, R. p. 162, line 30); Vice President of Shulton, Inc. (appellees' answer to appellants' interrogatory 16, R. p. 163, lines 12-13); and a member of the Board of Directors of Shulton, Inc. (R. p. 163, line 32).

(d) George L. Schultz is a member of the Board of Directors of Tecnique, Inc., New Jersey (appellees' answer to appellants' interrogatory 15, R. p. 162, line 28); President of Shulton, Inc. (appellees' answer to appellants' interrogatory 16, R. p. 163, lines 3-4); and a member of the Board of

Directors of Shulton, Inc. (R. p. 163, line 27).

All of the officers and directors of Tecnique (New Jersey), with the single exception of Sig Pass, are officers and/or directors of Shulton, Inc.

10. Tecnique (New Jersey) carries on business correspondence on stationery of Shulton, Inc. (R. p. 246)

11. Shulton, Inc., dealt as the principal in connection with the very subject matter of this litigation (see letter dated July 31, 1961, on Shulton, Inc., letterhead signed by George L. Schultz, President (R. p. 247) (see letter dated June 26, 1962, on Shulton, Inc., letterhead signed by John K. Bangs, House Counsel, R. p. 248).

12. Shulton, Inc., advertises and sells "Tecnique by Shulton" not only to the retail trade (see Exhibit G, R. p. 249, and Exhibit H, R. p. 250), but also to the <u>professional trade</u>. Mr. Livoti was wrong when he answered appellants' interrogatory 13 in which he tried to establish that Shulton, Inc., sold only to the retail trade, while Tecnique, New Jersey, sold only to the professional trade. That Shulton, Inc., sells directly to the professional trade is shown by the following exhibits:

(a) Exhibit I - Advertising brochure by "Shulton-Tecnique Division" which clearly shows a

"professional package" (R. p. 251);

(b) Exhibit J - Double page advertisement for "Tecnique Professional Color-Tone by Shulton" (R. pp. 252 and 253);

(c) Exhibit K - Advertisement by "Shulton-Tecnique Division" for professional trade (R. p. 254);

(d) Exhibit L - Advertisement by "Shulton-Tecnique Division" for professional trade (R. p. 255).

Exhibits I, J, K and L were obtained by appellants' counsel in the course of preparation for this action in 1962.

13. There is evidence in the record that Breiseth and Williams of Shulton, Inc., make sales calls for "Tecnique" on Mercury Beauty Supply of Los Angeles and that "Tecnique" is ordered by that company by telephoning "SP 6-1888" which is the telephone number listed on page 1267 of the Los Angeles Central Telephone Director for "Shulton, Inc. 5431 West 104th St." (R. unnumbered page between pp. 240 and 241, lines 27-32, p. 241, lines 1-4).

14. Tecnique, Inc., New Jersey, and Tecnique, Inc. Minnesota, were wholly-owned subsidiaries of Shulton, Inc., in December 1959, and Tecnique, Inc., New Jersey, has remained a wholly-owned subsidiary of Shulton, Inc., as of the date of this action (paragraph I of joint answer of Shulton, Inc., and Tecnique, Inc., New Jersey,

admitting allegation to the effect in paragraph I of the complaint herein, R. p. 8, lines 23-27).

It therefore appears that appellants, in spite of the refusal of the District Court to allow pre-trial discovery after the motion to dismiss was filed, have nevertheless established by a fair preponderance of the credible evidence that Tecnique (New Jersey) is simply an instrumentality which has no rights of substance apart from those of Shulton, Inc; that Shulton, Inc., is the real party in interest and is properly before the Court and that Tecnique (New Jersey) is neither a necessary nor an indispensable party to this action.

II

WHERE THE DEFENDANTS BY AFFIDAVIT RAISE ISSUES OF FACT REGARDING THE JURISDICTION OF THE COURT OVER ONE OF THE DEFENDANTS, THE DISTRICT COURT SHOULD ALLOW PLAINTIFFS TO COMPLETE THEIR PRE-TRIAL DISCOVERY BEFORE DECIDING THE ISSUES OF FACT.

There is no need to cite authority for the proposition that since a United States District Court possesses only such jurisdiction as has been conferred by statute, the question of its jurisdiction is a "threshold issue" in every case. Since the Court is obligated to satisfy itself on this issue, whether or not raised by the parties,

the Court necessarily has the power to make such determination. It is also the general rule that jurisdictional issues are triable by the Court except when the issue as to jurisdiction involves or impinges upon an issue of substantive law in the case (See Point III, infra, p.

In this case, the appellees made a motion to dismiss on the basis of lack of jurisdiction over the appellee Tecnique (New Jersey) on the ground that Tecnique (New Jersey) had not been properly served by process. Although the motion to dismiss (R. p. 180 and 181) makes no reference to the Federal Rules of Civil Procedure, authority for the motion can be found in Rule 12(b)(2) or 12(b)(5). Although Rule 12(b) relating to defenses which may, at the option of the pleader be made by motion, makes reference to matters outside the pleading only in connection with the defense of failure of the pleading to state a claim [Rule 12(b)(6)], the District Court accepted and considered affidavits (Livoti and Breiseth [R. p. 189 to 199, incl.]) in support of the appellees' motion to dismiss. Moreover, appellees' made their joint motion to dismiss approximately three months after the appellees had appeared and served and filed their joint answer in spite of the requirement of Rule 12(b) that "a motion making any of these defenses shall be made before pleading if further pleading is permitted.

Since we have found no case in which a District

Court has granted a motion to dismiss on the basis of affidavits or other matters outside the pleadings and since we have found no reason to assume that Rule 12(b) does not mean what it says as to the time at which the motion "shall" be made, there is some reason to doubt that the motion to dismiss, as presented, should have been entertained by the Court.

Assuming, however, that the District Court does have the right to accept and consider matters outside the pleadings and that the motion to dismiss was timely under Rule 12(b), the appellants nevertheless contend that the District Court erred in refusing to allow appellants to complete their discovery. We call the attention of the Court to the language of Rule 12(b) and Rule 12(c) which, in connection with the reference to the consideration of matters outside the pleadings, specifically provides, not only that such motions shall be treated as motions for summary judgment but "that all parties shall be given reasonable opportunity to present all material made pertinent to such a motion by Rule 56." We believe that this language imposes upon a District Court the obligation of allowing appellants to complete its pre-trial discovery where the appellees have, by affidavit, put in issue facts which bear on the jurisdiction of the Court and which are directly controverted by appellants.

We are supported in our belief by the following

line of authority:

(a) Monteiro v. San Nicolas, S.A., 2nd Cir., 1958, 254 F. 2d 514. In an opinion written by Judge Medina, the Second Circuit Court of Appeals reversed a District Court which had dismissed a libel (admiralty) on the sole basis of affidavits submitted on behalf of the defendant. The Court of Appeals found that the trial court erred in not considering plaintiff's opposing affidavit which controverted the denial of an agency relationship and of a claim that defendant was not present in the district. It ordered a hearing before the District Court and not before a Commissioner.

(b) River Plate Corp. v. Forestal Land, Timber & Railway Co., Ltd., 185 F. Supp. 832, D.C. S.D. N.Y. 1960. This case was decided by the District Court Judge whose opinion had been overruled in the Monteiro v. San Nicolas, S.A. case. The defendants had moved under Rule 12(b) to quash service and to dismiss the complaint as to each of them. The Court denied the motions on the ground that since there was some evidence that there may have been some prior activities of the defendant in the district sufficient to constitute presence in the jurisdiction, the plaintiff should be afforded an opportunity to explore the question of whether such activities have continued and whether service of process was valid. The plaintiff

was permitted to proceed with depositions, citing the language of the Monteiro case to the effect that it has been held error to grant a motion to dismiss without affording plaintiff an opportunity to explore the jurisdictional facts.

(c) General Ind. Co. v. Birmingham Sound Reproducers, Ltd., U.S.D.C. E. D.N.Y., 1961 26 F.R.D. 559. In this case, plaintiff, in a patent infringement case, served two foreign corporations, alleging, among other things, that one of the corporations conducted business in the district in the name of another domestic corporation and that it was the alter ego of the second corporation. Both foreign corporations moved to dismiss the complaint on the ground that they were not found in the jurisdiction and had not properly been served with process. The court directed defendant to answer plaintiff's interrogatories, citing the Monteiro and River Plate cases "for the proposition that courts must allow litigants reasonable opportunity to prove that the court has jurisdiction over the cause." (Ibid, p. 561)

(d) Ziegler Chemical & Mineral Corp. v. Std. Oil of Calif., 32 F.R.D. 241 (1962). In November, 1962, Judge Zupoli in the United States District Court, N.D. Calif. S.D., denied a defendant's motion to dismiss which had been based upon a claim that the defendant

did no business in the district. The Court held that the interests of justice would be served if plaintiff were given an opportunity for pre-trial discovery even where, at the time the motion to dismiss was made, jurisdiction and venue had not been established.

III

PLAINTIFFS ARE ENTITLED TO A PLENARY TRIAL WHERE ISSUES OF FACT DETERMINATIVE OF JURISDICTION ARE ALSO DETERMINATIVE OF THE SUBSTANTIVE ISSUES ON THE MERITS.

As we have seen, the District Court summarily dismissed the complaint in this action on the ground that the appellee Tecnique (New Jersey) was an indispensable party who had not been properly served. In order to arrive at this result, the Court was required to decide:

(a) That Tecnique (New Jersey) was a corporate entity which had rights, independent of the defendant Shulton who is admittedly before the court, of such substance that the trial court could not proceed without Tecnique (New Jersey);

(b) That Tecnique (New Jersey) which was organized by Shulton on the very day (August 19, 1959) when Shulton agreed to purchase from La Maur the shares of Tecnique (Minnesota), acquired certain rights

to a formula for hair dye and to an injunction by a series of assignments and bills of sale executed four months after Shulton acquired the stock of Tecnique (Minnesota);

(c) That the right to the formula for hair dye and to the injunction were assignable and that the instruments of conveyance were bona fide instruments supported by a valid consideration rather than formal acts by two servants of the same master without genuine substance or significance;

(d) That in spite of the obvious interrelationship, Tecnique was a separate entity and not the alter ego of Shulton, Inc.;

(e) That Shulton was not the agent of Tecnique through which Tecnique (if it has any substance at all) does business within the district where the appellees asserted that there was an oral agreement between the two;

(f) That Tecnique was not doing business directly within the district.

To a significant degree these issues coincide with the issues going to the merits. The substantive foundation of appellants' claim for relief against the prospective application of the injunction is that there have been significant changes in conditions and circumstances between 1951 and 1962 which have resulted in rendering the

injunction of no benefit to appellees and an instrument of oppression to appellants. At the trial, the Court will necessarily have to determine who is, in contemplation of law, the current beneficiary of the right granted by the injunction. This will involve proof of the origin of such right, the current existence of the rights and the devolvement of such rights by conveyance or by operation of law or otherwise. It will require the court to determine, as a matter of substantive law, whether Tecnique (New Jersey), Shulton, La Maur or some other party is the legal and beneficial owner of the formula and of the rights under the injunction before it can decide what relief appellants are entitled to and against whom.

We believe that the District Court, in undertaking to decide summarily the issues in this case, committed error. This problem was considered by Judge Mathes in an elaborate opinion in Shaffer v. Coty, Inc. (1960) 183 F. Supp. 662. After establishing the general rule as to the authority of a District Court in its discretion to determine how jurisdictional issues are to be decided, Judge Mathes discussed limitations placed on this authority by reviewing courts (p. 666). In language which might have been written particularly for this case, Judge Mathes stated the rule of law:

> "The question confronted here then is whether, in a case invoking the equity jurisdiction of this Court, the trial judge as fact-finder may in his

> discretion decide a jurisdictional issue summarily or must try it plenarily, albeit perhaps as a 'separate issue' under Rule 42(b). Where the jurisdictional issue to be determined in a non-jury case stands apart from the issues as to the merits of the controversy, as for example, a challenge as to citizenship in a diversity case, it is appropriate to try that issue summarily, upon motion, and by receiving and weighing affidavits. See: Land v. Dollar, supra, 330 U.S. at page 735, 67 S.Ct. at page 1010; KVOS, Inc. v. Associated Press, supra, 299 U.S. at pages 278-279, 57 S.Ct. at page 201; Wetmore v. Rymer, supra, 169 U.S. at page 119, 18 S.Ct. at page 295; Morris v. Gilmer, 1889, 129 U.S. 315, 326, 9 S.Ct. 289, 32 L.Ed. 690; Seideman v. Hamilton, 3 Cir., 1960, 275 F. 2d 224, 226, affirming D.C.E.D.Pa. 1959, 173 F.Supp. 641, 642-644, certiorari denied 80 S.Ct. 1258; Lane Bryant, Inc. v. Maternity Lane, 9 Cir., 1949, 173 F. 2d 559, 562.
>
> "On the other hand, where a jurisdictional issue coincides in whole or substantial part with an issue going to the merits, as for example a challenge as to the amount of damage in controversy, considerations of policy underlying the due-process concept are said to require that determination be made only after plenary trial, even in non-jury cases."

In the Shaffer case, Judge Mathes granted the motion to dismiss because it appeared "to a legal certainty" that the requisite jurisdictional amount was not in controversy after the parties had been accorded the privilege of offering and cross-examining witnesses and having announced that they (the parties) had brought forth all the evidence that they wished to proffer on the issue.

In this case, the issues are considerably more complex than the amount of damages and those issues which are raised by the motion to dismiss coincide with the sub-

stantive issues. Under these circumstances and on the authority of <u>Shaffer</u> v. <u>Coty</u> (supra) and the cases cited therein, appellants should have been granted a plenary trial after having been allowed a reasonable opportunity, by available methods of discovery, to obtain and to present all material relevant and pertinent to the issues raised by the motion.

<u>CONCLUSION</u>

The appellants in this action have been denied their day in court in the only judicial district in which appellants and Shulton can both be found. This was accomplished by the granting of a motion to dismiss based solely upon affidavits in a situation where:
(a) appellants presented to the Court documentary evidence directly controverting the affidavits of appellees;
(b) the jurisdictional issues coincide to a substantial degree with the substantive issues on the merits;
(c) appellants were denied a reasonable opportunity to obtain, by normal discovery methods, and present to the Court facts relevant to the issues raised by the appellees motion to dismiss.

The judgment of the District Court should be reversed in that the District Court committed error in that

(a) The judgment of dismissal was not supported by the evidence in the record; and

(b) Appellants were deprived of a plenary trial on issues which were simultaneously procedural and substantive; and

(c) Appellants were deprived of a reasonable opportunity to obtain, by normal discovery methods, the facts which were relevant to the issues raised by the defendants' motion to dismiss.

Respectfully submitted,

STAPLETON, WEINBERG AND ISEN

By______________________________
F. G. Stapleton
Attorneys for Plaintiffs-Appellants, Albert Lapin and Lapinal, Inc.

CERTIFICATE OF COUNSEL

STATE OF CALIFORNIA)
) ss
COUNTY OF LOS ANGELES)

I, F. G. STAPLETON, one of the attorneys for the above named Appellants, ALBERT LAPIN and LAPINAL, INC., do hereby certify that I have examined the provisions of Rules 18 and 19 of the above entitled Court, and that in my opinion the tendered brief on behalf of Albert Lapin and Lapinal, Inc., conforms to all requirements.

DATED: August 16, 1963.

F. G. Stapleton

In the

United States Court of Appeals

For the Ninth Circuit

No. 18775

Civil

ALBERT LAPIN and LAPINAL, INC.,
Appellants,

vs.

SHULTON, INC., and TECNIQUE, INC.,
Appellees.

APPELLEES' BRIEF

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APPELLEES' BRIEF

JURISDICTIONAL STATEMENT

The order of the United States District Court for the Southern District of California, Central Division, dismissing the complaint herein for jurisdictional reasons was entered on December 4, 1962 (R. 225).[1] The order of that court amending the judgment of dismissal so as to incorporate as a part of the record certain affidavits and to dismiss the complaint "without prejudice" was entered on April 29, 1963 (R. 273-8). Notice of appeal was filed by appellants on May 27, 1963 (R. 279). Appellants invoked the jurisdiction of this court under Sec. 1291 of Title 28 *U.S.C.*

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[1]The transcript of record consists of two volumes. The first volume includes the entire record designated by the parties, except for the reporter's transcript of the proceedings had on November 20, 1962 in the court below, which is Volume 2 of the transcript of record. In this brief, Volume 1 is cited as "R. ...." and Volume 2, the reporter's transcript, is cited as "R. Vol. 2, p. ....". The Appellants' Brief is cited as "App. Br."

STATEMENT

The statement in Appellants' Brief is inaccurate in some particulars and incomplete in others, and it is therefore necessary for appellees to set forth an additional statement.

Appellants commenced this action in the United States District Court for the Southern District of California, Central Division, to dissolve a decree of injunction entered on July 5, 1951 by the United States District Court for the District of Minnesota, Fourth Division, in the case of *Albert Lapin, et al., v. LaMaur, Inc.,* No. 3232 Civil in the files of that court. For brevity, the decree so entered is hereinafter referred to as the "Minnesota decree" and the District Court which entered it the "Minnesota court".

A brief description of the facts and circumstances leading to the issuance of the Minnesota decree will serve to clarify the issues raised in this proceeding.

On November 22, 1947, appellant Albert Lapin and his three brothers, Isadore, Samuel and Harold Lapin, granted LaMaur, Inc. (herein for brevity referred to as "LaMaur") an exclusive license to manufacture and sell a hair dye, "Tecnique", in accordance with formulas and processes represented by the Lapins to be secret, together with "any improvements" therein (R. 27, 31, 32). As a term of the license agreement, Albert and Isadore Lapin agreed to enter the employ of LaMaur to help promote the sale of Tecnique in the beauty trade (R. 32).

Thereafter, the Lapins commenced an action in the Minnesota court to cancel the license and enjoin LaMaur from continuing to manufacture and sell Tecnique, on the ground, among others, that LaMaur had failed to produce and sell Tecnique in sufficient quantities to pay the earned royalties stipulated in Par. 20 of the license agreement (R. 22, 66-8).

In its answer, LaMaur alleged, as one defense among others, that, if it had failed to make the requisite volume of sales, it was excused from doing so because Albert and Isadore Lapin had wrongfully and continuously disparaged the product manufactured by LaMaur, with substantial adverse effects on the marketing of Tecnique by LaMaur (R. 40, 50).

In a counterclaim, LaMaur alleged that the Lapins, through a wholly-owned corporate instrumentality then known as Lapinol, Inc. (now Lapinal, Inc.), had sold hair dyes manufactured in accordance with the formula licensed to LaMaur, in violation of the exclusive license agreement (R. 52). After hearing, the Minnesota court, Judge Gunnar H. Nordbye presiding, sustained the mentioned defense (R. 80-4) and held that the license agreement had not been duly canceled (R. 87). The court further found that the Lapins had in fact, and in violation of the exclusive license agreement with LaMaur, manufactured a hair dye containing "qualitatively" some or all of the same ingredients disclosed in the formulas licensed to LaMaur, that, even if the combination of such ingredients in the product manufactured by the Lapins was different "quantitatively" from that disclosed in the formulas licensed to LaMaur, the formulas and processes used in the manufacture of Lapinol was an "improvement" thereof, covered by the license agreement (R. 72-3). The Minnesota court made no finding whether the formulas and processes covered by the license agreement were "secret", though it found that the Lapins had represented them so to be (R. 76).

On December 30, 1950, in accordance with its findings, the Minnesota court entered a decree enjoining the Lapins for the duration of the license agreement, directly or through its corporate instrumentality, then known as Lapinol, Inc. (now Lapinal, Inc.), from manufacturing Lapinol (or Lapinal) in competition with LaMaur (R. 75, 88).

Negotiations for settlement ensued, which culminated in a stipulation dated July 2, 1951 under which the parties canceled the license agreement of November 22, 1947 and the Lapins agreed to "sell, assign, transfer and set over to defendant the secret hair dye (known as 'Tecnique') and the secret formulas and processes for making the same and all the formulas and processes which are the subject-matter of said license agreement" (R. 89, 91).

The stipulation further provided that the Lapins would not disclose the formulas for the manufacture of "Lapinol" or "Lapinal" or authorize the manufacture thereof, with the proviso that this covenant should not be construed to prevent appellant Albert Lapin, directly or through Lapinol, Inc., from manufacturing the same so long as Albert Lapin continued to be the principal officer of Lapinol, Inc. and the owner of a majority of each class of its shares or other securities (R. 92). The proviso read as follows:

> "Provided, nevertheless, that the foregoing covenant and agreement shall not be construed to prevent Albert Lapin, one of the plaintiffs, individually or through the instrumentality of Second Party (Lapinol, Inc.), from manufacturing 'Lapinol' or 'Lapinal' or any other hair dye or hair coloring or hair tinting product, other than 'Tecnique', or from selling the same in the usual course of the beauty trade for so long, but only so long, as plaintiffs and Second Party shall refrain from violating their foregoing covenant and agreement and for so long, but only so long, as Second Party shall remain a corporation with the majority of each class of shares of stock or other securities issued by Second Party owned and held to his own account by Albert Lapin, free and clear of any encumbrances, restrictions and agreements, and Albert Lapin continues as the principal officer of Second Party." (R. 92-3).

The stipulation made no provision for any change in the Findings of Fact originally entered by the Minnesota court on December 30, 1950, but did provide that application would be made to amend the Order and Decree entered by the Minnesota court by eliminating therefrom certain designated paragraphs and substituting others in conformity with the stipulation (R. 93-4). On July 5, 1951, on application of LaMaur, the Order and Decree of December 30, 1950 were so amended and a Decree of Injunction entered, enjoining the disclosure of the formulas and processes involved, subject to the proviso that the limitation would not extend to the manufacture of Lapinol or Lapinal by appellants Albert Lapin or Lapinol, Inc. so long as Albert Lapin continued as the principal executive officer of the mentioned corporation and owned the majority of its issued shares or other securities (R. 96). The order and decree of July 5, 1951 in this respect is correctly set forth on pp. 4-5 of Appellants' Brief.

Conformably with the stipulation, the Lapins delivered to LaMaur a bill of sale dated June 28, 1951, transferring to LaMaur the formulas and processes for making Tecnique, "together with any improvements" therein (R. 190, 191).

LaMaur marketed Tecnique through a subsidiary corporation known as Tecnique, Inc., a Minnesota corporation (herein for brevity referred to as "Tecnique of Minnesota"). Until December 17, 1959, however, LaMaur retained all right, title and interest in the formulas and processes for the manufacture of Tecnique acquired from the Lapins and in the decree of injunction entered July 5, 1951 by the Minnesota court. On December 17, 1959, LaMaur transferred the formulas and processes for the manufacture of Tecnique and all its right, title and interest in the Minnesota decree to Tecnique of Minnesota (R. 192, 196). The latter corporation, on the next day, December 18, 1959, transferred all the property and interests so acquired to appellee Tecnique, Inc., a New Jersey corporation (herein for brevity referred to as "Tecnique of New Jersey") (R. 194, 198), a wholly-owned subsidiary of Shulton, Inc.

LaMaur's assignment to Tecnique of Minnesota, dated December 17, 1959, of its interest in the Minnesota decree, reads as follows (R. 196):

"KNOW ALL MEN BY THESE PRESENTS, that in consideration of the sum of One Dollar ($1.00) and other good and valuable consideration to it in hand paid, LaMaur, Inc., a Minnesota corporation of Minneapolis, Minnesota, hereby assigns, transfers and sets over unto Tecnique, Inc., a Minnesota corporation, its successors and assigns, all of its right, title and interest in and to the Judgment and Decree as originally entered and as modified in the case brought in the United States District Court, District of Minnesota, Fourth Division, Civil No. 3232, entitled 'Albert Lapin, Isadore Lapin, Samuel Lapin, Harold Lapin, Plaintiffs, vs. LaMaur, Inc., a Minnesota corporation, Defendant', and in and to all sums of money that may be obtained by means thereof, or on any proceeding to be had thereupon, and in and to the Writ of Injunction issued thereunder under date of January 2, 1951, and in and to the Amended Writ of Injunction issued thereunder under date of July 5, 1951, and in and to any liens, levies, or rights arising therefrom.

"IN TESTIMONY WHEREOF, the said corporation has caused these presents to be executed in its corporate name by its President and its Secretary, and its corporate seal to be hereunto affixed this 17th day of December, 1959.

(Corporate Seal)

LA MAUR, INC.
By Maurice L. Spiegel
Maurice L. Spiegel
Its President
By Minnie R. Spiegel
Minnie R. Spiegel
Its Secretary"

Signed, Sealed and Delivered in Presence of:
Benedict Deinard
Ivah Stewart

The assignment by Tecnique of Minnesota to Tecnique of New Jersey dated December 18, 1959, of its rights in the Minnesota decree, reads as follows (R. 198):

> "KNOW ALL MEN BY THESE PRESENTS, that in consideration of the sum of One Dollar ($1.00) and other good and valuable consideration to it in hand paid, Tecnique, Inc., a Minnesota corporation, hereby assigns, transfers and sets over unto Tecnique, Inc., a New Jersey corporation, its successors and assigns, all of its right, title and interest in and to the Judgment and Decree as originally entered and as modified in the case brought in the United States District Court, District of Minnesota, Fourth Division, Civil No. 3232, entitled 'Albert Lapin, Isadore Lapin, Samuel Lapin, Harold Lapin, Plaintiffs, vs. LaMaur, Inc., a Minnesota corporation, Defendant', and in and to all sums of money that may be obtained by means thereof, or on any proceeding to be had thereupon, and in and to the Writ of Injunction issued thereunder under date of January 2, 1951, and in and to the Amended Writ of Injunction issued thereunder under date of July 5, 1951, and in and to any liens, levies, or rights arising therefrom.
>
> "IN TESTIMONY WHEREOF, the said corporation has caused these presents to be executed in its corporate name by its Vice President and its Secretary, and its corporate seal to be hereunto affixed this 18th day of December, 1959.
>
> (corporate seal)
>
> TECNIQUE INC.
> By Richard N. Parks
> Richard N. Parks
> Vice President
>
> Nicholas J. Livote
> Nicholas J. Livote
> Secretary"
>
> Signed, Sealed and Delivered
> in Presence of:
> Grace E. Branigan
> John K. Bangs

Tecnique of New Jersey had been organized by Shulton, Inc. on August 19, 1959 (R. 164) for the purpose of acquiring and continuing the business of Tecnique of Minnesota (R.

265-6). On that date, according to appellees' verified answers to appellants' interrogatories (R. 165, 169), stock purchase agreements were executed for the sale of all the capital stock of Tecnique of Minnesota to Tecnique of New Jersey (R. 165). According to the affidavit of John K. Bangs, House Counsel of appellees, Tecnique of New Jersey acquired all the stock of Tecnique of Minnesota and thereafter caused the dissolution of Tecnique of Minnesota, with the distribution of all its business and assets in liquidation to Tecnique of New Jersey, as sole shareholder (R. 266; App. Br., p. 6). Other documents, appellants claim, support the inference that the capital stock of Tecnique of Minnesota was transferred, not to Tecnique of New Jersey, but to appellee Shulton, Inc., so that on December 17 and 18, 1959, when Tecnique of Minnesota acquired the rights of LaMaur, Inc. in the Minnesota decree and re-assigned them to Tecnique of New Jersey, both the Minnesota and the New Jersey corporations were wholly-owned subsidiaries of Shulton, Inc. (App. Br., pp. 5-6). This issue of fact is immaterial, as shown in the Argument below.

On July 7, 1962, appellants filed a complaint in the United States District Court for the District of Southern California, alleging that both Shulton, Inc. and Tecnique of New Jersey maintained places of business in Los Angeles County (R. 2); that Tecnique of New Jersey is a wholly-owned subsidiary of Shulton, Inc. (R. 2); that Shulton, Inc. has a consolidated net worth in excess of $28,000,000.00 and consolidated sales in excess of $57,000,000.00 (R. 7), while appellant Lapinal, Inc. has a net worth of approximately $110,000.00 and sales of $360,000.00 (R. 7); that Lapinal, Inc. has been engaged since 1951 in the manufacture and sale of Lapinal under increasing competition and financial disadvantages due to changed conditions arising since the issuance of the injunction of 1951 (R. 7); and that the changed conditions made the prospective application of the Minnesota decree inequitable (R. 7).

The action was brought under Rule 60(b) of the *Federal Rules of Civil Procedure* (R. 3) and prayed for judgment "dissolving the injunction issued on July 5, 1951 by the United States District Court for the District of Minnesota, Fourth Division, in Civil Action File No. 3232" (R. 7).

Service on Tecnique of New Jersey was sought to be made by service of a copy of the complaint on one Norton M. Breiseth, the Regional Manager of Shulton, Inc. in Los Angeles (R. 225).

On August 12, 1962, appellees filed a joint answer to the complaint which, among other things, recited the prior proceedings had in the Minnesota court and specifically "den[ied] that defendant Tecnique, Inc. maintains a place of business in the County of Los Angeles, State of California" (R. 8) or that "this action is maintainable in this Court under Rule 60(b) of the Federal Rules of Civil Procedure" (R. 8). The answer set forth as affirmative defenses that the action was maintainable only in the Minnesota court and that Tecnique of New Jersey was an indispensable party but did no business in the County of Los Angeles, State of California, and was not duly served, as follows (R. 20-1):

"SECOND DEFENSE

I.

"If as alleged in the Complaint, there have been such changed conditions as to render the prospective application of said injunction of 1951 inequitable, the relief prayed for may not be granted by this Court or by any Court, save by the United States District Court for the District of Minnesota, Fourth Division, which made and entered the original and Amended Decrees of Injunction.

"THIRD DEFENSE

I.

"This Court lacks jurisdiction over the person of defendant Tecnique, Inc., in that said defendant does not do business and cannot be found in the County of Los Angeles, State of California, and the attempted service on it by delivery of a copy of the Complaint to defendant Shulton, Inc. does not constitute valid service on defendant Tecnique, Inc.

II.

"Defendant Tecnique, Inc. is an indispensable party to the maintenance of this action.

"FOURTH DEFENSE

I.

"Allege that the Complaint fails to state a claim upon which relief can be granted."

On September 6, 1962, appellants served on appellees 124 interrogatories (R. 100-123). Interrogatories 1-41 related to jurisdictional facts, such as the employment of personnel by Tecnique of New Jersey in California and its relations with Shulton, Inc. All of these interrogatories were answered on October 26, 1962, save and except a part of Interrogatory 26 (as to the price paid by Shulton, Inc. for certain shares of stock), which was objected to as immaterial (R. 159-169).

From the verified answers of appellees to appellants' interrogatories 1 through 41, it appeared that Tecnique of New Jersey had no employees operating in California since September, 1959 (R. 159); that it maintained no stock of merchandise in California (R. 160); and that Shulton, Inc. had not at any time since 1959 solicited any orders or otherwise conducted business in California on behalf of Tecnique of New Jersey (R. 160). It further appeared that Tecnique of New Jersey maintained books of account and bank accounts separate from those of Shulton, Inc. (R. 161), as well as a separate sales force and administrative staff (R. 161), although it occupied the same premises as defendant Shulton, Inc. in New Jersey, maintained no manufacturing or warehouse facilities separate from those of Shulton, Inc. (R. 161), and the majority of its Board of Directors and officers were also officers and directors of Shulton, Inc. (R. 162-3).

The remaining interrogatories, 42-124, related to the chemical formulas used in the manufacture of Tecnique; the chemical and competitive relation of Tecnique to other competing products manufactured by ten or more other concerns; the volume of defendants' business in the sale of Tecnique and the amounts expended for advertising the same; and requested particulars as to various defenses alleged in the answer. On October 15, 1962, all interrogatories 42-124 were objected to by appellees (R. 125, 126-50).

On October 23, 1962, appellees served interrogatories on appellants which in general asked for particulars as to the "changed conditions" alleged in the complaint and, specifically inquired whether appellants claimed that the formulas and processes for the manufacture of Tecnique and Lapinal were secret on the date of issuance of the Minnesota decree in 1951, whether appellants claimed that there had been a change since the date of the Minnesota decree in the extent of secrecy in said formulas or processes and, if so, by whom and in what manner such change had been brought about (R. 152-57).

On November 1, 1962, appellants filed objections to appellees' interrogatories in which appellants alleged, among other things, that the Minnesota court "has previously found that said formulas or processes were a secret * * * on the date of issuance of said injunction in 1951" (R. 172, 174).

Appellees' objections to certain of appellants' interrogatories were originally noticed for hearing on October 29, 1962 (R. 125), but were thereafter re-set for hearing on November 19, 1962, the same date on which appellants' objections to appellees' interrogatories were set down for hearing (R. 125, 171).

On November 14, 1962, appellees moved to dismiss the complaint and noticed the motion for hearing on November 19, 1962 (R. 179). The grounds recited in the motion were that the service of process on Tecnique of New Jersey was invalid and that corporation was an indispensable party (R. 179).

The motion was based in part on "all of the records, files and documents in this cause", as well as two affidavits of Nicholas J. Livoti and one of Norton M. Breiseth (R. 180-1). The affidavit of Breiseth recited that he was the Regional Manager of Shulton, Inc. but that he held no office or position in Tecnique of New Jersey and had rendered no services to that corporation (R. 183-4). One of Livoti's affidavits recited that he was the Assistant Secretary of Shulton, Inc. and Secretary of Tecnique of New Jersey, and attached true and correct copies of (1) the bill of sale of the formulas and processes for the manufacture of Tecnique from the Lapins to LaMaur; (2) the bills of sale transferring all interest in the formulas and processes from LaMaur to Tecnique of Minnesota and from Tecnique of Minnesota, in turn, to Tecnique of New Jersey; and (3) the assignments by LaMaur to Tecnique of Minnesota of all its interest in the Minnesota decree of injunction and the transfer by Tecnique of Minnesota, in turn, of all the interest so acquired to Tecnique of New Jersey (R. 190-199). The other affidavit of Livoti recited that Tecnique of New Jersey had orally licensed Shulton, Inc. to manufacture and sell "Tecnique" in consideration of royalty payments of 5% on the first $1,000,000.00 of sales of "Tecnique" by Shulton, Inc. in any one year, and 4% of all such sales above $1,000,000.00 in any one year (R. 187).

The motion to dismiss further recited that it was based in part on "Defendants' Statement of Reasons in Support of

This Motion" (R. 180-1). The accompanying "Statement of Reasons in Support of Defendants' Motion to Dismiss" included as a separate ground what had been inadvertently omitted from the text of the motion, that an action to dissolve the Minnesota decree of 1951 was maintainable, if at all, only in the Minnesota court where the decree was originally issued (R. 201, 204).

At the hearing below, held on November 20, 1962, counsel for appellants initially objected to argument on the alternative ground because, although it was discussed in the "Statement", it was not recited in the motion (R. Vol. 2, p. 11). He then stated to the court, however, that "If you wish to permit this argument today I will argue it because I have read the cases, but I would like permission of the court then to file our memorandum subsequently because we were caught on an order to shorten time", permission which the court below granted (R. Vol. 2, pp. 12-13). Thereafter, counsel for appellants in the course of his argument stated with respect to this alternative ground that "the other part of this motion to which I objected, * * * I will argue because I have read the motion papers" (R. Vol. 2, p. 50) and then proceeded to discuss and attempt to distinguish each of the cases cited on this point in appellees' "Statement" (R. Vol. 2, pp. 50-1).

At the date of hearing, no deposition had been noticed for taking by appellants, save one, which was withdrawn at the close of the hearing. While present in Los Angeles to attend the hearing, counsel for appellees, Melvin H. Siegel, was served with a notice of the taking of his deposition and a subpoena to attend the same (R. Vol. 2, pp. 3-4). In response to appellees' motion to quash the notice and subpoena or, alternatively, to require that the deposition be taken by interrogatories or on oral examination at the residence of appellees' counsel, Minneapolis, Minnesota (R. Vol. 2, pp. 5-6) appellants' counsel asserted that the deposition was noticed because it was the "only" way he had to ascertain the facts and circumstances surrounding the transfer of the capital stock of Tecnique of Minnesota in 1959 (R. Vol. 2, pp. 6-8). Although the record does not so recite, the notice and subpoena, however, were withdrawn when counsel for appellees stated that he would not appear in any case unless paid his costs of transportation from Minneapolis and per diem. The statement in appellants' brief that this matter was held in abeyance pending ruling on the motion to dismiss (App. Br., p. 9) is completely unfounded.[2]

On December 4, 1962, the court below entered its order granting appellees' motion to dismiss (R. 225) upon the ground that Tecnique was the apparent owner of the decree of injunction sought to be dissolved and therefore an indispensable party and had not been duly served (R. 226-7). The court added that, while the foregoing was determinative of the matter, the court was "of the opinion that the relief sought by the plaintiff should only be sought by motion in the District Court where the original decree was issued" (R. 227).

On December 12, 1962, appellants moved to amend and modify the judgment pursuant to Rule 59 of the *Rules of Civil Procedure,* and prayed for an order as follows (R. 234, 237):

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[2]The reporter's transcript of the proceedings of November 20, 1962 is only a "partial transcript" of those proceedings (R. Vol. 2, p. 73). At the time of the designation of the record on appeal, appellees had no reason to believe that any claim would be made that the motion to quash the notice of taking the mentioned deposition was still pending and the ruling thereon held in abeyance pending decision on the motion to dismiss. Now that this claim has been made, appellees have requested that the reporter's notes of the proceedings in this connection be transcribed for transmittal to this court, if the notes have been preserved. Unless appellants withdraw the unfounded claim made in this connection, appellees will move this court to enlarge the record by including the transcript of the proceedings below on this point, or other record of the disposition of the notice to take the deposition of appellees' counsel.

1. For a re-hearing so as to permit appellants to make a matter of record the documents referred to in argument of appellants' counsel (R. 234).

2. To grant appellants leave to take additional evidence by deposition or affidavit on the issues of jurisdiction raised by the motion to dismiss (R. 234, 257).

3. To grant appellants a plenary trial on the jurisdictional issues on the ground that they overlapped in material part the substantive issues of fact involved in the merits (R. 234, 261).

4. To modify the judgment so as to provide that the same would be "without prejudice" (R. 234, 257).

On April 29, 1963, the court below overruled the motion for re-hearing, excepting that it permitted the record to show that the documents referred to by appellants' counsel at the argument on the motion to dismiss were formally made a part of the record, and modified the judgment so as to provide that the same was "without prejudice to the bringing of another action when and if it appears that the court can obtain jurisdiction of the defendant Tecnique, Inc." (R. 273, 278).

The court below stated that in its order of December 4, 1962 it had "made no finding that Tecnique of New Jersey is in legal effect the owner of the decree of injunction", but that "the purport of that Order is that, because of its *apparent* ownership, Tecnique of New Jersey is an indispensable party to any action which seeks to extinguish such injunction and consequently the rights therein" (R. 276). The court added that, "Being of the opinion that the present action is properly maintainable only in the District Court where the decree of injunction was rendered * * *, I cannot feel that failure to treat Tecnique as a sham at this time leads to an inequitable result" (R. 277).

QUESTIONS PRESENTED

The questions presented are:

1. Whether, under Rule 12(d), *Federal Rules of Civil Procedure,* which directs that certain jurisdictional and other specified defenses, whether made in a pleading or by motion, be heard and determined before trial on application of any party unless the court otherwise determines, the court below had power to hear and determine appellees' motion to dismiss on jurisdictional grounds first alleged in the answer.

2. Whether the court below had power to hear and determine jurisdictional defenses without prejudice on affidavits, without regard to the requirements of Rule 56, *Federal Rules of Civil Procedure,* for granting summary judgment on the merits.

3. Whether on the evidence before it the court below correctly determined that Tecnique of New Jersey, the apparent owner of the Minnesota decree of injunction, was an indispensable party to an action to dissolve that injunction, and was not subject to service in the Southern District of California.

4. Whether the court below properly exercised its discretion in denying a motion for re-hearing to permit appellants to obtain additional facts on the jurisdictional issues by affidavits and further pretrial discovery.

5. Whether, in determining without prejudice that Tecnique of New Jersey was so far the apparent owner of all rights in the Minnesota injunction as to make it an indispensable party, without making a final determination whether it was in fact the true owner of such rights, the court below decided a substantive issue on which a plenary hearing was required.

6. Whether an action to dissolve the Minnesota decree is maintainable in any court other than the Minnesota court which entered it.

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2. To grant appellants leave to take additional evidence by deposition or affidavit on the issues of jurisdiction raised by the motion to dismiss (R. 234, 257).

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5. Whether, in determining without prejudice that Tecnique of New Jersey was so far the apparent owner of all rights in the Minnesota injunction as to make it an indispensable party, without making a final determination whether it was in fact the true owner of such rights, the court below decided a substantive issue on which a plenary hearing was required.

6. Whether an action to dissolve the Minnesota decree is maintainable in any court other than the Minnesota court which entered it.

SUMMARY OF ARGUMENT

I.

Tecnique of New Jersey is, without dispute, the apparent owner of record of all right, title and interest in the Minnesota decree issued in 1951 and is, therefore, an indispensable party to an action to dissolve that decree. Assuming, contrary to fact, that there were any question as to the validity of the transfer of all interest in the Minnesota decree to Tecnique of New Jersey, that question cannot be adjudicated in a proceeding to which Tecnique of New Jersey is not a party. This is so notwithstanding that Tecnique of New Jersey is a wholly-owned subsidiary of Shulton, Inc., a party to the proceeding, and a majority of its directors and officers are likewise directors and officers of Shulton, Inc.

Tecnique of New Jersey does not do business in California and is not subject to service in the Southern District of California. The purported service of process on the managing agent of Shulton, Inc., therefore, did not constitute valid service on Tecnique of New Jersey. The separate corporate identities of Shulton, Inc. and Tecnique of New Jersey, while formal, are real and may not be disregarded for jurisdictional purposes. Doing of business by Shulton, Inc. in California for its own account, therefore, does not constitute doing of business in that state by Tecnique of New Jersey so as to subject the latter to suit or service in the Southern District of California. The business done by Shulton, Inc. in California, moreover, was done on its own account and not as an agent for Tecnique of New Jersey, and hence does not constitute doing of business by Tecnique of New Jersey in that state.

The court below properly determined these issues on appellees' motions to dismiss made after answer. The defenses were duly raised in the answer, and under Rule 12(d) the

District Court had the power to make a determination of these issues on application of either party. The determination was properly made on affidavits. The issue was one for the court and in the court's discretion could be determined on affidavits. The precedents for so determining such issues are legion. There was no abuse of discretion in denying appellants leave to reopen in order to obtain further facts by affidavits or additional discovery.

The issues raised on the motion to dismiss are in no way involved in the merits so as to require a plenary hearing. No genuine dispute can be raised as to the validity of the interest of Tecnique of New Jersey in the Minnesota decree. But, if there were such a dispute, it sufficiently appears that Tecnique of New Jersey claims an interest in that decree and its claim cannot be adjudicated adversely to Tecnique of New Jersey in a proceeding to which it is not a party. It is unnecessary to determine finally whether Tecnique of New Jersey is in fact the true owner of all rights in the Minnesota decree in order to resolve that question finally on the merits. It is enough to find, as plainly appears, that Tecnique of New Jersey has such an apparent claim, that its interest cannot be adversely determined in a proceeding to which it is not a party.

II.

This is sufficient ground on which to affirm the decision below. Alternatively, the same result should be reached on the ground that the action to dissolve the Minnesota decree, if maintainable at all, may be brought only in the Minnesota court which entered the decree in 1951. There is precedent, it is true, for the maintenance of an independent action in another court to vacate a judgment or decree on the grounds of extrinsic fraud. An action to modify or dissolve a decree of injunction because of changed conditions, however, stands upon a different footing. The power to modify or dissolve such a decree rests on the continuing power of the *issuing* court to supervise the enforcement of its own decrees. Accordingly, application to modify or dissolve such a decree may be made properly only to the court which entered it.

Assuming there could ever be an exception to this general principle, the present proceeding is one which should be brought only in the court which entered the Minnesota decree. It plainly appears that appellants claim and will claim that one of the changed conditions warranting a dissolution of the decree of injunction is that the formulas and processes for the manufacturing of Tecnique and Lapinal were found by the Minnesota court to be secret at the time the original decree of injunction was entered in 1951 but are no longer secret at the present time. An important question is thus presented as to the construction of the original decree, which should be resolved by the Minnesota court. Whether the issue of secrecy was ever tried in the Minnesota court does not appear, but it does appear that that court made no finding that the formulas and processes were secret at the time of trial, though it did find that the Lapins had represented them to be secret. No transcript of the proceedings was ever prepared and the court reporter's notes have not been preserved, so that resort to the minutes of the trial court may be necessary to determine whether the issue of secrecy was ever tried.

ARGUMENT

I.

The court below correctly held that appellee Tecnique, Inc. of New Jersey is an indispensable party and had not been properly served.

There is no dispute that Tecnique of New Jersey is the apparent owner of the Minnesota decree which appellants' action seeks to dissolve. There is also no dispute that Tecnique of New Jersey was not subject to service in the Southern District of California unless it was doing business in California. This is so whether the service was made under Rule 4(d)(3), *Federal Rules of Civil Procedure,* or subparagraph (7) of Rule 4(d), which permits service in the manner prescribed by the law of the state in which the service is made.

> 2 *Moore's Federal Practice,* Sec. 4.25, p. 969 (2d Ed. 1962).

Under Section 1391 of Title 28 *U.S.C.,* moreover, an action not founded solely on diversity of citizenship may be brought only where all of the defendants reside, that is, in the case of a corporation, where it is "doing business". Without dispute, this action is one brought to enforce an alleged federal right under Rule 60(b) to dissolve a decree of injunction by another Federal court.

The answer duly reserved the objection to service on Tecnique of New Jersey on each of these grounds,

> *Camp v. Gress,* 250 U.S. 308, 311, 63 L.Ed. 997, 1000 (1919);
>
> *Shall v. Henry,* 211 F.2d 226, 228 (C.A. 7, 1954),

and to the jurisdiction of the court for failure to serve an indispensable party, Tecnique of New Jersey. The court below correctly determined these jurisdictional issues on motion to dismiss thereafter made by appellees. The court below had the power to make this determination on affidavits in advance of trial, but without prejudice. No substantive issue involved on the merits was presented or decided.

A. THE COURT BELOW HAD POWER TO HEAR AND DETERMINE APPELLEES' MOTION TO DISMISS ON AFFIDAVITS.

The court below had the power to determine the jurisdictional issues raised by appellees' motion to dismiss, though these defenses were first asserted in the answer. Contrary to appellants' suggestion (App. Br., pp. 30-1), Rule 12 clearly authorized the court below to do so. Rule 12(d) provides:

> "(d) PRELIMINARY HEARINGS. The defenses specifically enumerated (1) – (7) in subdivision (b) of this rule, whether made *in a pleading* or by motion, and the motion for judgment mentioned in subdivision (c) of this rule shall be heard and determined before trial on application of any party, unless the court orders that the hearing and determination thereof be deferred until the trial." (Italics supplied.)

There can be no serious doubt that Rule 12(d) extends to defenses of lack of jurisdiction of the person, improper venue or insufficiency of process or service of process.

> 2 *Moore's Federal Practice,* Sec. 12.16, pp. 2274-5 (2d Ed. 1962).

The court below, it is equally clear, had power to hear and determine such issues on motion and affidavit. Contrary to appellants' suggestion (App. Br., p. 31), the court below was not required, in resolving such issues on affidavits, to observe the limitations prescribed by Rule 56 for the granting of summary judgment on the merits. No extended discussion of this question is required, in view of the full and authoritative opinion of Judge Mathes in

> *Williams, et al., v. Minnesota Mining & Manufacturing Co., et al.,* 14 F.R.D. 1 (S.D. Cal. 1953),

approved by this Court in

> *Pensick & Gordon, Inc. v. California Motor Express,* 302 F.2d 391 (C.A. 9, 1962), rev. on other grounds 9 L.Ed. 2d 227.

B. ON THE EVIDENCE BEFORE IT, THE COURT BELOW PROPERLY FOUND THAT TECNIQUE OF NEW JERSEY WAS AN INDISPENSABLE PARTY AND HAD NOT BEEN DULY SERVED.

1. *The court below properly found that Tecnique of New Jersey was an indispensable party.*

There can be no genuine dispute that appellee Tecnique of New Jersey is the apparent owner of record of the original decree of injunction issued by the United States District Court for the District of Minnesota. The formal genuineness of the instruments of assignment by which LaMaur, the original owner, assigned its right, title and interest to Tecnique of Minnesota on December 17, 1959 and the latter corporation in turn assigned all its right, title and interest to appellee Tecnique of New Jersey, is not disputed. Tecnique of New Jersey is, therefore, an indispensable party to an action to dissolve the injunction, even though it is a wholly-owned subsidiary of appellee Shulton, Inc. and the two corporations have a majority of directors and officers in common. It is elementary that the owner of record of the legal title, even if only the bare legal title as in the case of a bailment or escrow, is an indispensable party to a suit in which the title may be adversely affected.

> 3 *Moore's Federal Practice,* Sec. 19.12, pp. 2171-2 (2d Ed., 1962);
>
> cf. *Clinton v. International Organization of Machinists, etc.,* 254 F.2d 370 (C.A. 9, 1958);
>
> *Warfield v. Marks,* 190 F.2d 178 (C.A. 5, 1951).

It is wholly immaterial that the owner of record of such legal title is a wholly-owned and controlled subsidiary of another corporation which is a party to the action.

Niles-Bement-Pond Company v. Iron Molders' Union, 254 U.S. 77, 65 L.Ed. 145 (1920).

The case of *Niles-Bement-Pond Company v. Iron Molders' Union, supra,* is a controlling authority. In that case, the parent corporation was a New Jersey corporation, and the subsidiary corporation was an Ohio corporation. The parent owned the controlling stock interest in the subsidiary, and the same individuals were President and Vice-President, respectively, of both corporations. The parent New Jersey corporation made a contract with the United States to furnish certain machinery, tools, etc., and, to use the language of the Supreme Court, "passed" the "manufacture" to the subsidiary, the parent remaining liable for the performance of the contract.

The facts as alleged and proved were that former employees of the subsidiary had conspired to prevent the employees who replaced them from going to and from their homes; the purpose of such conspiracy being to prevent the parent from performing its contracts with the government. It was asserted that the action of the former employees constituted interference with the employees. The court held that such allegations were sufficiently proved.

The Supreme Court held, however, that the subsidiary was an "indispensable" party because the action was based upon an interference by the former employees with the contracts of employment between the subsidiary and the new employees who took the place of the former ones. At the same time, the Supreme Court held that because of the complete control of the parent over the subsidiary, the two corporations could not be regarded as genuinely adverse parties, and that the subsidiary, therefore, must be realigned as a party plaintiff, and that as a result there was no diversity of citizenship between all of the plaintiffs and all of the defendants, since, although the parent was a New Jersey corporation, the subsidiary was an Ohio corporation, and all the former employees who were joined as defendants were likewise citizens of Ohio.

In holding that the subsidiary (the "tool" company) was an indispensable party, the Court said (254 U.S. at 80-1, 65 L.Ed. at 148):

> "The case we are considering is essentially one on the part of the petitioner to protect from interference by striking former employees of the Tool Company the contract which that company had with the men employed by it to take their places. Petitioner's claim of right, the validity of which we are not called upon to determine, is rested wholly upon the contract of the Tool Company with its employees, and the character and construction of that contract of employment must inevitably be passed upon in any decision of the case; and, obviously, if the petitioner should fail in such a suit as this, with the Tool Company not a party, any decree rendered would not prevent a relitigating of the same questions in the same or in any other proper court, and it would settle nothing.
>
> "*Thus, if the Tool Company be considered as having any corporate existence whatever separate from that of the petitioner,* it must have an interest in the controversy, involved in such a case as we have here, of a nature such that a final decree could not be made without affecting that interest, and perhaps not without leaving the controversy in a condition wholly inconsistent with that equity which seeks to put an end to litigation by doing complete and final justice; and therefore it must be concluded that it was an indispensable party, within the quoted long established rule." (Italics supplied.)

On the question of the realignment of parties, however, the court held that the relationship between parent and subsidiary prevented the existence of any real conflict of interest between them, and held that the subsidiary therefore had to be realigned as a party plaintiff, rather than as a party defendant. On this point, the Court said (254 U.S. at 81-2, 65 L.Ed. at 148):

> "Plainly, the appellant was not mistaken when it made the Tool Company a party to the suit. But making it a party defendant could not give to the district court jurisdiction against the objection of another party, or over the court's own scrutiny of the record, unless there existed a genuine controversy between it and the plaintiff, the petitioner. (Citation.) That there was not, and could not be, any substantial controversy, any 'collision of interest', between the petitioner and the Tool Company, is, of course, obvious from the potential control which the ownership of stock by the former gave it over the latter company, and from the actual control effected by the membership of the board of directors and by the selection of executive officers of the two companies, which have been described.
>
> "Looking, as the court must, beyond the pleadings and arranging the parties according to their real interest in the dispute involved in the case (citations), it is clear that the identity of interest of the Tool Company with the petitioner required that the two be aligned as plaintiffs, and that with them so classified, the case did not present a controversy wholly between citizens of different states, within the jurisdiction of the district court (citations)."

It is immaterial whether, as appellants claim, the documents support an inference that on December 17 and 18, 1959, when the rights of LaMaur under the original decree of injunction were assigned to Tecnique of Minnesota and reassigned by the latter to Tecnique of New Jersey, all shares of stock of the Minnesota corporation had been transferred to Shulton, Inc. so as to make it, as well as the New Jersey corporation, a wholly-owned subsidiary of Shulton, Inc. It may be assumed, *arguendo,* that the affidavits of Livoti and Bangs that the stock of the Minnesota corporation had been transferred to Tecnique of New Jersey were in error on this point.

The suggestion, however, that the reassignment was merely a "formal" act by "two servants of the same master without genuine substance or significance" (App. Br., p. 35) hardly rises to the dignity of an argument. But, if it be supposed that the apparent interest of Tecnique of New Jersey as owner of record could ever be questioned on such grounds, its claim to ownership of the Minnesota decree cannot be adversely determined in a proceeding to which it is not a party. It is elementary that where there are several claims to a fund or other property, title cannot be adjudicated without joining each of the claimants.

> *Williams v. Bankhead,* 19 Wall. 563, 22 L.Ed. 184 (1874);
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> *Brown v. Fletcher,* 231 F. 92, 95 (C.A. 2, 1916);
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> *Ducker v. Butler,* 104 F.2d 236, 239 (C.A. D.C. 1939);
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> *South Penn Oil Co. v. Miller,* 175 F. 729, 736 (C.A. 4, 1909);
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> cf. *United States v. Bank of New York & Trust Co.,* 296 U.S. 463, 480, 80 L.Ed. 331, 341 (1936).

2. *The court below properly found that Tecnique of New Jersey had not been properly served.*

Without dispute, the attempted service of Tecnique of New Jersey by service on Mr. Breiseth, the managing agent of Shulton, Inc. in California, did not constitute valid service on Tecnique of New Jersey unless, as appellants argue, either the separate corporate identity of Tecnique of New Jersey is a sham which may be ignored, or Tecnique of New Jersey did business in California through the instrumentality of Shulton as its agent. The court below properly found that neither basis existed for service on Tecnique of New Jersey by service on the managing agent of Shulton, Inc.

It is elementary, of course, that where, as here, the validity of service is brought in question, the burden of proof of establishing the sufficiency of the service is on the party asserting it, in this case, that is, on the appellants.

> *McNutt v. General Motors Acceptance Corp.*, 298 U.S. 178, 80 L.Ed. 1135 (1936);
>
> *Pure Oil Co. v. Puritan Oil Co.*, 127 F.2d 6 (C.A. 2, 1942);
>
> *Amtorg Trading Corp. v. Standard Oil Co.*, 47 F.Supp. 466 (S.D. N.Y. 1942).

Appellants failed to meet this burden. On the contrary, it affirmatively appeared beyond reasonable dispute that Tecnique of New Jersey was not a sham but a genuine, separate corporation and that it did not employ Shulton as its agent to do business in California.

Appellants' claim to the contrary is in essence founded on the facts that Tecnique of New Jersey is a wholly-owned subsidiary of Shulton, Inc. and that the majority of its board and officers are likewise members of the board and officers of Shulton, Inc. It is settled that these circumstances are insufficient to warrant piercing the corporate veil for service of process where, as here, the formal separateness of the parent and subsidiary are maintained in the maintenance of separate corporate books and records.

> *Cannon Mfg. Co. v. Cudahy Packing Co.*, 267 U.S. 333, 335, 69 L.Ed. 634, 641 (1925);
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> *Harris v. Deere and Company*, 128 F.Supp. 799 (E.D. N.C. 1955), aff'd 223 F.2d 161 (C.A. 4, 1955);
>
> *Ludwig v. General Binding Corp.*, 21 F.R.D. 178 (E.D. Wis. 1957);
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> *Matrozos v. Gulf Oil Corp.*, 54 F.Supp. 714 (S.D. N.Y. 1943);

A. G. Bliss Co. v. United Carr Fastener Co., 116 F.Supp. 291 (D.C. Mass. 1953), aff'd 213 F.2d 541.

The additional circumstance that Tecnique of New Jersey has no separate manufacturing or warehouse facilities, on which appellants also rely (App. Br., pp. 24-5), is obviously immaterial. The practice of separating manufacturing and sales in separate corporations is a common one and affords no basis for the claim that a subsidiary engaged wholly in sales activities can be served by service of process on an affiliated corporation which manufactures and supplies the selling company with products for resale.[3]

Cannon Mfg. Co. v. Cudahy Packing Co., supra;
Harris v. Deere and Company, supra.

The decision in *Cannon Mfg. Co. v. Cudahy Packing Co.* is controlling. In that case, the plaintiff brought an action in North Carolina against the defendant, a Maine corporation. The defendant moved to dismiss for lack of jurisdiction, on the ground that the only service made was on the Cudahy Packing Company of *Alabama*, a subsidiary of defendant, and that defendant itself was not doing business within the State of North Carolina, so as to render it amenable to service there.

The Supreme Court, speaking through Justice Brandeis, unanimously affirmed a judgment of dismissal. In so doing, the Court recognized that defendant exercised complete control of the Alabama subsidiary. As to this, the court said (267 U.S. at 335, 69 L.Ed. at 641):

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[3]Obviously no significance can be attached to the further fact, mentioned by appellants (App. Br., p. 27), that the President of Shulton, Inc. and the house counsel of both appellees responded to inquiries made to the President of Shulton, Inc. by representatives of appellants as to the possibility of settlement before this action was commenced (R. 247-8). If, as appellants point out (App. Br., p. 27), Tecnique of New Jersey on one occasion used the letterhead of Shulton in circulating its "professional Tecnique line", the letter was signed on behalf of "Tecnique, Inc.", not Shulton, Inc. (R. 246).

"The Alabama corporation, which has an office in North Carolina, is the instrumentality employed to market Cudahy products within the state; but it does not do so as defendant's agent. It buys from the defendant and sells to dealers. In fulfilment of such contracts to sell, goods packed by the defendant in Iowa are shipped direct to dealers; and from them the Alabama corporation collects the purchase price. Through ownership of the entire capital stock and otherwise, *the defendant dominates the Alabama corporation, immediately and completely;* and exerts its control *both commercially and financially* in substantially the same way, and *mainly through the same individuals* as it does over those selling branches or departments of its business not separately incorporated which are established to market the Cudahy products in other states." (Italics supplied.)

The court, however, found that the two corporations were, for purposes of service, separate and distinct because separate books and records were maintained. As to this, the court said (267 U.S. at 335, 69 L.Ed. at 641-2):

"The existence of the Alabama company as a distinct corporate entity is, however, in all respects observed. Its books are kept separate. All transactions between the two corporations are represented by appropriate entries in their respective books in the same way as if the two were wholly independent corporations. This corporate separation from the general Cudahy business was doubtless adopted solely to secure to the defendant some advantage under the local laws."

For the reason stated, the court concluded:

"The corporate separation, though perhaps merely formal, was real. It was not pure fiction." (267 U.S. at 337, 69 L.Ed. at 642.)

The *Cannon* case, to be sure, involved an attempt to serve the parent corporation by service on the subsidiary, but its rule is equally applicable in the converse situation where service on the subsidiary is sought to be made by service on the parent.

A. G. Bliss Co. v. United Carr Fastener Co., 116 F.Supp. 291 (D.C. Mass. 1953), aff'd 213 F.2d 541 (C.A. 1, 1954).

The distinction between Shulton, Inc., the parent, and Tecnique of New Jersey, therefore, however formal, is not a sham and may not be disregarded for purposes of jurisdiction.

There is likewise no basis for any claim that Tecnique of New Jersey, treated as a separate corporation, did do business in fact in California through the agency of Shulton, Inc. No suggestion to this effect was made at all at the hearing on the motion to dismiss. In support of the motion for rehearing, appellants for the first time advanced such a claim (R. 234, unnumbered p. after 240). But, as shown in Point I, C, immediately below, the court below properly overruled the motion for re-hearing.

C. THE COURT BELOW PROPERLY EXERCISED ITS DISCRETION IN DECLINING TO GRANT APPELLANTS A RE-HEARING TO ALLOW THEM FURTHER PRE-TRIAL DISCOVERY ON THE JURISDICTIONAL ISSUES.

We recognize, of course, that the trial court in its discretion "may" continue a hearing to permit further discovery on jurisdictional, as well as on other, issues. See

Ziegler Chemical & Mineral Corp. v. Standard Oil Corp. of Cal., 32 F.R.D. 241, 243 (N.D. Cal. 1962),

particularly since, "As there is no stautory direction for procedure upon an issue of jurisdiction, the mode of determination is left to the trial court",

Gibbs v. Buck, 307 U.S. 66, 71-2, 83 L.Ed. 1111 (1939).

But an application for continuance is, in any case, "purely a matter of discretion",

Isaacs v. United States, 159 U.S. 487, 489, 40 L.Ed. 229, 230 (1895),

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But an application for continuance is, in any case, "purely a matter of discretion",

Isaacs v. United States, 159 U.S. 487, 489, 40 L.Ed. 229, 230 (1895), and may, therefore, be denied where the additional discovery "would have done no good" because the evidence sought thereby would not affect the determination of the issue.

City of Coral Gables v. Hayes, 74 F.2d 989, 990 (C.A. 5, 1935);

Wong Ken Foon v. Brownell, 218 F.2d 444, 446 (C.A. 9, 1955);

Fouts v. Fawcett Publications, 116 F.S. 535, 537 (D.C. Conn. 1953).

Where, as here, an application for continuance pending completion of discovery is made on a motion for re-hearing, the trial court obviously has a particularly broad discretion to grant or deny the application.

6 *Moore's Federal Practice,* Secs. 59.07, 59.08(3), pp. 3773, 3784 (2nd Ed., 1962).

The court below did not abuse its discretion in determining the jurisdictional issue without additional pre-trial discovery. A sufficient reason is that there was no request for a continuance to complete discovery pending before the court when the motion to dismiss was granted.

Appellants' discovery on jurisdictional issues was in fact completed, so far as then appeared, when the question of dismissal was submitted for the court's determination. Appellants' contention to the contrary (App. Br., p. 31) is wholly without foundation.

Appellees had answered all appellants' interrogatories 1 through 41, with one immaterial exception, relating to jurisdiction, on October 26, 1962 (R. 159).[4] The documents re-

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[4]The documents relating to the transfer of the capital stock of Tecnique of Minnesota, which were identified in the answers to appellants' interrogatories, would thereafter have been subject to an order to produce under Rule 34, Federal Rules of Civil Procedure, had they been material. But, as previously noted, they related to the wholly specious claim that, if "the seller of the shares of Tecnique Minnesota was LaMaur", and "the buyer * * * was Shulton, Inc." (R. Vol. 2, p. 41), then the assignment by Tecnique of Minnesota of all

ferred to by appellants' counsel in his argument at the hearing had been collated by appellants even before the interrogatories had been served on the appellees on September 5, 1962 (R. 237, 240 through unnumbered page following 240; cf. R. 100). On the basic issue whether Shulton in fact conducted any business in California as agent for Tecnique of New Jersey, appellants did not subpoena Mr. Breiseth, regional manager of Shulton, who resided in Los Angeles, for oral examination at the hearing, although admittedly they could have subpoenaed anyone residing within the jurisdiction of the Southern District of California (R. Vol. 2, p. 7).

Appellants did state at the hearing that further discovery was needed to determine whether the capital stock of Tecnique of Minnesota had been transferred to Shulton, Inc., so that, as appellants claimed, the transfer of any rights in the Minnesota decree by that corporation to Tecnique of New Jersey was "a conveyance from one set of Shulton employees under one name to another set of Shulton employees with another name" (R. Vol. 2, p. 41; cf. App. Br. p. 35), a claim which was plainly specious and unrelated to the jurisdictional issues, as shown in Point I, B, 1, *supra*. Appellants asserted, moreover, that even on this point discovery could "only" be obtained by taking the deposition of appellees' counsel, Melvin H. Siegel, and notice of taking his deposition was served while appellees' counsel was in Los Angeles for the hearing (R. Vol. 2, pp. 3-4). But subsequently, as stated,

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its interest in the Minnesota decree to Tecnique of New Jersey would have been merely "formal acts by two servants of the same master without genuine substance or significance" (App. Br., p. 35), a claim plainly without merit, as shown in Point I, B, 1, supra. Moreover, it was assumed at the hearing that appellants were correct in asserting that the capital stock of Tecnique of Minnesota had been transferred to Shulton, Inc., rather than to Tecnique of New Jersey. Counsel for appellees, as pointed out in appellants' brief (pp. 23-4), so stated at the hearing, and his statement, though based on an inadvertent misreading of appellees' answers to the interrogatories in this respect (*cf.* R. 165), was the basis on which the motion was submitted.

appellants withdrew this notice when demand was made for tender of transportation expense from Minneapolis.

Whatever suggestions were made for the need of further discovery at the hearing, moreover, they were not continued or made the basis of objection to determination of the motion to dismiss when the court below entered its order. To the contrary, in their "Memorandum in Opposition to Defendants' Motion to Dismiss the Complaint", filed, by leave of court, *subsequent* to the hearing (R. 213, R. Vol. 2, pp. 12-13), appellants expressly submitted the cause on the files before the court at the hearing. In their Memorandum, appellants *did* object to any ruling on appellees' defense that the Minnesota court was the only forum in which to commence an action to dissolve an injunction issued by that court, and based their objection in this respect on the ground that that defense had not been stated in the motion, as required by Rule 7(b), *Federal Rules of Civil Procedure* (R. 213). But with respect to the defense that Tecnique of New Jersey was an indispensable party and was not duly served, no objection was made that ruling should be reserved pending completion of further discovery. To the contrary, all appellants' Memorandum stated on this point was that, "Although defendants strenuously oppose any discovery by the plaintiffs, *there are sufficient facts in the papers filed in this proceeding* and in the public records to support this position" that "Shulton purchased the formulas and rights, if any, under the injunction and that Tecnique, New Jersey, was and is a shell, organized, controlled and dominated by Shulton, Inc." (R. 214, ital. supplied.)[5] Appellant's Memorandum was required to comply with Rule 3, *Rules of Civil Procedure,* United States District Court for the Southern District of California, which provides both that any party opposing a motion must file a "complete, written statement of all reasons in opposition thereto and an answering memorandum of points and authorities", and further provides that one who wishes to "move for a continuance, shall immediately notify (1) opposing counsel (2) the Clerk, and (3) the secretary of the Judge before whom the matter is pending", a notice which, as the silence of the record confirms, was never given.

cf. *Janousek v. French,* 287 F.2d 616, 619 (C.A. 8, 1961).

In the light of appellants' Memorandum, the trial court could only conclude that appellants had submitted the issue on the file then before the court. The court below thus properly decided the motion to dismiss on the evidence before it.

It is equally clear that the court below properly exercised its discretion in overruling the motion for re-hearing to permit further discovery. A sufficient reason is that, prior to the ruling adverse to appellants, the matter had been submitted with appellants' consent on the record then before the court. The facts which appellants purportedly sought to develop by further discovery, moreover, plainly "would have done no good".

City of Coral Gables v. Hayes, loc. cit., supra;
Fouts v. Fawcett Publications, supra.

The irrelevant issue, whether the capital stock of Tecnique of Minnesota had been transferred to Shulton, Inc., rather than Tecnique of New Jersey, was raised again (R. 258). It was further claimed that, in view of the admissions in the answers to interrogatories that Tecnique of New Jersey occupied the premises of Shulton, that it had no separate manu-

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[5]The statement as to appellees' opposition, incidentally, was in error; appellees never opposed any discovery by plaintiffs on the jurisdictional issue, as plainly appears from the transcript of proceedings in the hearing of November 20, 1962 (R. Vol. 2). Appellees' counsel did object to the taking of his deposition in Los Angeles, California, and moved the court either to quash the notice or to direct that his deposition be taken at his residence, Minneapolis, Minnesota, or on written interrogatories (R. Vol. 2, pp. 5-6). As stated, appellants subsequently withdrew the notice of taking his deposition.

facturing or warehouse facilities, and that the majority of its directors and officers were also officers and directors of Shulton, Inc., further discovery was needed and would show that "Tecnique is financed solely by Shulton" (R. 259, 260), a showing which, if made, would have been immaterial in view of the express assumptions in the controlling case of

Cannon Mfg. Co. v. Cudahy Packing Co., 267 U.S. at 335, 69 L.Ed. at 641,

that the parent "dominates" the subsidiary "immediately and completely" and "exerts its control both commercially and financially" through the "same individuals" as it "does over * * * departments of its business not separately incorporated", and that the subsidiary engaged only in selling products purchased from the parent company and shipped by the latter directly to subsidiary's customers.[6]

Only one claim was made in the motion for re-hearing that appellants had evidence to show that Shulton, Inc. acted as agent of Tecnique of New Jersey in California transactions so that the latter corporation did in fact do business in Cali-

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[6]There was also no need for further discovery to determine whether, as appellants claim (R. 259), the documents in evidence showed Shulton, Inc. had itself engaged in selling to the "professional trade", contrary to appellees' verified answers to appellants' interrogatory 13 (R. 162) or whether, as averred by Mr. Bangs, the documents cited by appellants were in fact advertising brochures of Tecnique of New Jersey in which that corporation was loosely described as a "division" of Shulton, Inc., the subsidiary being correctly described as a "subsidiary of Shulton, Inc.", however, in all legal instruments, including invoices (R. 265, 266, 268). If Shulton sold to the professional trade for its own account in California, its business there would not constitute doing business by Tecnique of New Jersey in that state. Without dispute, moreover, as shown by the documents relied on by appellants themselves, Technique of New Jersey independently solicited the "professional trade" (R. 246). Had appellants seriously claimed the contrary, they could, without further discovery, have readily called appellant Albert Lapin to testify at the hearing of November 20, 1962 under Rule 43(e), *Federal Rules of Civil Procedure;* having been engaged since at least 1951 (R. 6) in selling hair dye to the "beauty supply houses" (R. 70) and having an intimate knowledge, as appellants' interrogatories disclose, with the distinction between the "professional" and "retail" trade and the products of each of his competitors (R. 105-110, 114-120), he was fully qualified to give any evidence appellants needed on this point at the hearing.

fornia. This claim, however, was based solely on the affidavit of appellants' own counsel that he "is informed and believes" that Breiseth and one Williams, employees of Shulton, Inc., solicited the professional beauty houses for the sale of "Tecnique"; that orders for "Tecnique" could be placed by calling Shulton's office in Los Angeles, and that payments for "Tecnique" were made to Shulton (unnumbered page following 240-241). Since the trade name "Tecnique" is used by Tecnique of New Jersey (R. 246) and was also licensed to Shulton, Inc. (R. 187), even an affidavit based on personal knowledge would have been of little probative value, whether viewed alone or in the light of Breiseth's affidavit that the matters involved were "retail" items sold by Shulton for its own account (R. 270, 271). Certainly the court below was entitled to ignore an affidavit based merely on information and belief and not accompanied by any explanation for the failure of appellants to adduce such evidence at the hearing on November 20, 1962 or to subpoena Breiseth for examination generally at the hearing as to the services, if any, which he rendered for Tecnique of New Jersey in California.[7]

The cases cited by appellants furnish no support for their position. The decision in

> *Monteiro v. San Nicolas S.A.*, 254 F.2d 514 (C.A. 2 1958),

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[7]The statements of appellants' counsel on information and belief made in this connection were incorporated in an affidavit of December 12, 1962 (R. 236-41), as part of "the evidence presented at the hearing on the motion to dismiss which plaintiffs desire to have incorporated into the record" as prayed for in the motion for re-hearing (R. 237). In fact, no such statements had ever been made in oral argument at the hearing of November 20, 1962 by appellants' counsel (R. Vol. 2, pp. 40-9, 67-72). Had they been made at that time, there would have been even less excuse for failing to subpoena Mr. Breiseth for examination at the hearing with respect to these statements of appellants' counsel. It should also be added that the excuse given in the same affidavit, that, because counsel was engaged in an extensive argument in another case when served with motion to dismiss he "had no opportunity to prepare affidavits of the type required to oppose the motion before the hearing on the motion" (R. 236-7), would hardly excuse the failure to subpoena Mr. Breiseth for examination at the hearing.

the only one cited which reversed a decision of the trial court, is not even remotely in point. No issue was raised as to whether a continuance should have been granted pending completion of discovery. It was admitted that the resident corporation which had been served had in prior years acted as respondent's general agent in New York and was "appointed by respondent to handle business in New York when any arises" (254 F.2d at 514, 517), and there was no evidence that it had not continued to serve as general agent of respondent, other than the "conclusory assertion" to that effect in its affidavit, which was "contradicted in the affidavit of libelant's attorney" (254 F.2d at 516). The only conclusion the Court of Appeals could reach was that "it cannot be determined from the record in the case at bar whether" the resident corporation served "did in fact continue the business activities" of respondent in New York and that a hearing was necessary to determine the validity of the service.

The remaining cases cited are all trial court decisions, involving an exercise of discretionary authority, and are each plainly distinguishable on their facts. In

> *River Plate Corp. v. Forestal Timber Ry. Co., Ltd.,* 185 F.Supp. 832 (S.D. N.Y. 1960),

prior to the motion to dismiss, the plaintiffs had moved for the issuance of letters rogatory to take depositions in England and Argentina and had moved to take depositions in the United States to elicit facts on the jurisdictional issues. From the supporting affidavits of the moving defendants themselves, it appeared that there was substantial evidence that, in prior years, the moving defendants had been compelled to settle out of court certain anti-trust charges and had admittedly "arranged their affairs so that they will not be 'found' in the United States for purposes of suit", and to this end had "carefully re-worked their agreement with their distributors" so as to show on their "face" that the distributors were "independent contractors who have no agency relationship" with the moving defendants. The plaintiffs, however, alleged that the "concealment of such relationship is part of the conspiracy to restrain commerce and is the gravamen of the complaint" (185 F.Supp. at 835). On this basis, the court concluded that the facts were similar to those in the *Monteiro* case because "there may have been prior activities sufficient to constitute presence in the jurisdiction" so that "plaintiffs should be afforded an opportunity to explore the question whether such activities have in fact continued".

The case of

> *General Ind. Co. v. Birmingham Sound Reproducers, Ltd.,* 26 F.R.D. 559 (E.D. N.Y. 1961),

is not even remotely in point. In that case, plaintiff had filed interrogatories bearing on the jurisdictional facts and had moved for an order to compel defendants to answer the interrogatories and had further moved to stay the hearing on defendants' motion to quash until plaintiff had answered the interrogatories. Defendants conceded that the court had power to order answers to the "jurisdictional interrogatories" and did not question the scope of the interrogatories (26 F.R.D. at 560-1). Defendants' sole claim was that the interrogatories should have been propounded under Rule 31, instead of Rule 33, so that defendants could have had an opportunity to propound cross-interrogatories. The District Court merely overruled this narrow objection as without substance.

Finally, in

> *Ziegler Chemical & Mineral Co. v. Standard Oil Co. of Calif., supra,*

the court, while it did continue determination of a motion to dismiss, pending completion of pre-trial discovery, recognized that the matter was a procedural one within the discretion of the trial court.

D. NONE OF THE FACTS RELATING TO THE JURISDICTIONAL ISSUES COINCIDED WITH THOSE ON THE MERITS SO AS TO REQUIRE A PLENARY HEARING.

As the trial court properly concluded (R. 275-6), there was no coincidence between the jurisdictional issues and those on the merits as the latter were defined by appellants' counsel at the hearing. The basis of the claim for relief on the merits, as then stated by appellants' counsel, was that "the product has changed in 10 years"; that the "market has changed in ten years"; and that "the competitive strength of the parties is the key to this thing", since he "could not see" that "there was any danger that Lapinal with its $110,-000.00 is a serious threat to Shulton with its $25,000,000.00" (R. Vol. 2, pp. 68-70). While he claimed to make no point as to the secrecy of the processes for the manufacture of Tecnique at the time the original decree was entered, he could see no reason for continuing the injunction if they were not secret (R. Vol. 2, p. 54), a point discussed more fully in Point II below.

The claim that the issues on jurisdiction and those on the merits overlap, as now made in appellants' brief (pp. 34-6), is equally without merit. Most of the issues listed on appellants' brief (pp. 34-5) as decided by the court below in resolving the jurisdictional issue, are precisely of the character repeatedly determined by the trial courts on affidavits in passing on motions to dismiss as appears from the cases cited in Point I, B, 2, *supra*. This is certainly true of the related questions whether "Tecnique was a separate entity and not the alter ego of Shulton, Inc."; whether Tecnique of New Jersey "was a corporate entity which had rights independent of the defendant Shulton"; whether "Shulton was not the agent of Tecnique" through which "Tecnique does business within the district"; and whether "Technique was not doing business directly within the district".

Appellants, however, wholly misconceive the nature of the remaining questions decided by the court below, in asserting that that court had decided whether Tecnique of New Jersey had "acquired certain rights to a formula for hair dye and to an injunction by a series of assignments and bills of sale executed four months after Shulton acquired the stock of Tecnique (Minnesota)", and had also decided whether "the right to the formula for hair dye and the injunction were assignable and * * * the instruments of conveyance were bona fide instruments supported by valid consideration rather than formal acts by two servants of the same master without genuine substance or significance" (App. Br., pp. 34-5). All that the court below decided on this issue, as it made clear in its opinion overruling the motion for re-hearing, was that Tecnique of New Jersey, as the "apparent" owner of the decree of injunction, had such a claim thereto that its claimed interests could not be adversely determined in a proceeding to which it was not a party. As to this, the court below said:

> "For purposes of clarification it should be understood that this court in its Order of December 4, 1962 made no finding that Tecnique of New Jersey is, in legal effect, the owner of the decree of injunction which forms the subject of this action. The purport of that Order is that, because of its *apparent* ownership, Tecnique, of New Jersey, is an indispensable party to any action which seeks to extinguish such injunction and consequently the rights therein. Plaintiff as a matter of fact does not seem to dispute that, on paper at least, Tecnique of New Jersey owns the injunction. What plaintiff does emphatically contend is that Shulton is the real party in interest, that Tecnique is only a sham and should be disregarded." (R. 276).

The decisions previously cited in Point I, B, 1, *supra,* which uniformly hold that a claimant to a disputed fund or property is an indispensable party to an action affecting the title to such fund or property, fully support the decision of the court below.

The correctness of this conclusion is strongly confirmed by appellants' mere statement of the alleged coincidence of the jurisdictional issues and those on the merits. Appellants state (Br., pp. 35-6):

> "To a significant degree these issues coincide with the issues going to the merits. The substantive foundation of appellants' claim for relief against the prospective application of the injunction is that there have been significant changes in conditions and circumstances between 1951 and 1962 which have resulted in rendering the injunction of no benefit to appellees and an instrument of oppression to appellants. At the trial, the Court will necessarily have to determine who is, in contemplation of law, the current beneficiary of the right granted by the injunction. This will involve proof of the origin of such right, the current existence of the rights and the devolvement of such rights by conveyance or by operation of law or otherwise. It will require the court to determine, as a matter of substantive law, whether Tecnique (New Jersey), Shulton, LaMaur or some other party is the legal and beneficial owner of the formula and of the rights under the injunction before it can decide what relief appellants are entitled to and against whom."

It may be noted in passing that the right to the Minnesota decree of injunction was assignable by LaMaur.

Gale v. Tuolumne County Water Co., 169 Cal. 46, 145 P. 532 (1914);

Anno., 61 A.L.R.2d 1083, 1099.

But, if the contrary conclusion were true, then plainly LaMaur would be an indispensable party to this action, because it would then still be apparent owner of the decree. But, as shown in Point I, B, *supra*, it is unnecessary and, indeed, improper to make any final adjudication on the merits of this issue in ruling on a motion to dismiss "without prejudice".

It is enough to say that Tecnique of New Jersey, as the "apparent" owner of record, has such a claim to all rights in the Minnesota decree as to preclude the maintenance of any action for dissolution of that decree in an action to which it is not a party. And since, as appellants now claim, a determination on the merits would require an adjudication of the rights of LaMaur, as well, then the action should be dismissed on the independent ground that LaMaur was not even named as a party. The fact that this was not made a specific basis of the motion is immaterial. For, as this Court has held, "the absence of indispensable parties can be raised at any time, however, even by the appellate court on its own motion."

McShan v. Sherrill, 283 F.2d 462, 464 (C.A. 9, 1960);

Cf. *State of Washington v. United States,* 87 F.2d 421 (C.A. 9, 1936).

II.

An action to dissolve the Minnesota decree is maintainable, if at all, only in the Minnesota court which entered that decree.

The motion to dismiss, though it did not invoke on its face the defense that no action to dissolve a decree of injunction is maintainable in a court other than the one which issued it, did state that the motion was based in part on the "Defendants' Statement of Reasons in Support of this Motion" (180-1) and the Statement expressly set forth this defense as one of the grounds in support of the motion (R. 201, 204). Even if this were not a sufficient written statement of this defense as a ground of the motion under Rule 7(b), *Federal Rules of Civil Procedure,* appellants waived any right to object to a ruling on this defense by consenting to argue it at the hearing below on the sole condition, granted by the court, that they be permitted to file a brief subsequent to the hearing (R. Vol. 2, pp. 12-13).

Mutual Life Ins. Co. of New York v. Egelin, 30 F.Supp. 738 (N.D. Cal. 1939).

As the defect of equitable jurisdiction appears on the face of the complaint, moreover, it could be noticed by the court on its own motion.

Twist v. Prairie Oil & Gas Co., 274 U.S. 684, 71 L.Ed. 1297 (1927);

Viles v. Prudential Ins. Co. of America, 124 F.2d 78 (C.A. 10, 1941), cert. den. 315 U.S. 816, 86 L.Ed. 1214 (1942).

The court below did in fact sustain this defense (R. 225, 226-7, 273, 277).

What little authority there is supports appellees' position that an action to dissolve a decree of injunction because of changed conditions may be maintained only in the court which entered the original decree.

Torquay Corp. v. Radio Corp. of America, 2 F.Supp. 841, 844 (S.D. N.Y., 1932).

This view, we submit, is plainly correct on principle.

We recognize, of course, that the right to maintain an independent action in another court to set aside a decree because of fraud, or to enjoin the execution of a judgment because of payment subsequent to the entry thereof, has long been established.

Marshall v. Holmes, 141 U.S. 589, 35 L.Ed. 870 (1891);

Johnson v. St. Louis I. M. & S. R. Co., 141 U.S. 602, 35 L.Ed. 875 (1891).

In such cases, the facts alleged as ground for injunctive relief necessarily could not have been heard or considered by the court which entered the original judgment or decree.

Very different considerations apply, however, we submit, to an action to dissolve an injunction on the grounds of changed conditions. As the Supreme Court has observed:

> "The source of the power to modify is, of course, the fact that an injunction often requires continuing supervision by the *issuing* court and always a continuing willingness to apply its powers and processes on behalf of the party who obtained that equitable relief." (Ital. supplied.)
>
> *System Federation No. 91 v. Wright,* 364 U.S. 642, 647, 5 L.Ed.2d 349, 353 (1961).

It follows necessarily, we submit, that an application to "modify" and, *a fortiori,* to "dissolve" an injunction should be made to the "issuing court".

This would seem to be the conclusion required in any case of application for such relief. Certainly such should be the result here. In passing on appellants' application for dissolution of the Minnesota decree, it will be necessary in the first instance to determine the basis for that decree in order to determine whether there have been any "changed conditions" which would warrant a different result at this time. Appellants, while disavowing below any intention of relitigating the issues tried in the Minnesota action, or of raising any issue as to "secrecy" of the trade formulas and processes involved at the time the Minnesota decree was entered, have explicitly stated in answers to interrogatories of appellees that the "United States District Court, District of Minnesota, Fourth Division, has previously found that said formulas or processes were a secret * * * on the date of issuance of the injunction of 1951" (R. 172, 173-4). It is appellees' position, of course, that no such finding was made and that at most the Minnesota court found that the Lapins "claimed" that the formulas and processes were "secret" (R. 76). The important point, however, is that the question whether any such finding was made is peculiarly one for the determination of the Minnesota court. Since no transcript was prepared of the evidence taken at the hearing in the Minnesota court and the reporter's notes have not been preserved (R. 208-11), any ambiguity in the findings of the Minnesota court must be resolved by reference to the minutes of that court.

The Minnesota court, moreover, is obviously best qualified to determine whether, in any case, the injunction as originally entered on December 30, 1950, was based on any alleged "secrecy" or rather, as appellees claim, solely on the basis of the exclusive license granted to LaMaur to manufacture Tecnique in accordance with the formulas and processes disclosed by the Lapins or any improvement therein. That court can best determine, moreover, whether in the modification of the order and decree on July 5, 1951, pursuant to the stipulation of the parties, the basis for the modified decree of injunction was anything other than the agreement of the Lapins to sell absolutely their interest in the formulas and processes involved, subject only to the limited license to Albert Lapin to manufacture Lapinal so long as he owned a majority of the shares of stock or other securities of his corporate instrumentality, Lapinal, Inc., and remained the principal executive officer thereof.

It need only be added that in a proceeding in Minnesota to dissolve the injunction of 1951, valid service could be made on Tecnique of New Jersey as assignee of the rights of LaMaur, Inc.,

> *Butler v. Ungerleider,* 187 F.2d 238 (C. A. 2, 1951),

and that Shulton, Inc., although not qualified to do business in Minnesota (R. 164), would not be a necessary party in any such proceeding.

> 9 Fletcher, *Cyclopedia of Corporations,* Sec. 4473, p. 307 (Perm. Ed.).

CONCLUSION

For the foregoing reasons, it is respectfully submitted that the order of the court below granting appellees' motion to dismiss the complaint should be affirmed.

Respectfully submitted,

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CERTIFICATE OF COUNSEL

* * *

STATE OF MINNESOTA)
) ss.
COUNTY OF HENNEPIN)

I, MELVIN H. SIEGEL, one of the attorneys for the above-named Appellees, Shulton, Inc. and Tecnique, Inc., do hereby certify that I have examined the provisions of Rules 18 and 19 of the above-entitled Court, and that in my opinion the tendered brief on behalf of Shulton, Inc. and Tecnique, Inc. conforms to all requirements.

Dated: September 16, 1963.

Melvin H. Siegel

No. 18777

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

BERNADEANE O'NEAL,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

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TOPICAL INDEX

No. 18777

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

BERNADEANE O'NEAL,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

I.

JURISDICTIONAL STATEMENT.

Jurisdiction of the District Court is predicated upon Rule 35 of the Federal Rules of Criminal Procedure. Insofar as the Court acted to correct an illegal sentence, *i.e.,* the striking of the provision relating to parole, its jurisdiction is not challenged by Appellee. Rule 35 provides for such correction at any time.

This Court has jurisdiction to review that judgment of the District Court pursuant to Title 28, United States Code, Sections 1291 and 1294. The order of the District Court was entered on March 12, 1963 [C. T. 10][1]. Appellant filed a timely notice of appeal on March 22, 1963 [C. T. 13].

However, it is the position of the Government that at the time of the hearing on the motion to reduce sen-

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[1]C. T. refers to Clerk's Transcript of Record.

tence [C. T. 2], the denial of which motion is herein appealed, the District Court lacked jurisdiction to reduce the sentence. That hearing took place on March 11, 1963.[2] This was more than 60 days after receipt by the District Court of the mandate affirming the original conviction. The mandate was received on January 3, 1963.[3]

II.
STATUTES INVOLVED.

Rule 35, Federal Rules of Criminal Procedure:

> "The court may correct an illegal sentence at any time. The court may reduce a sentence within 60 days after the sentence is imposed, or within 60 days after receipt by the court of a mandate issued upon affirmance of the judgment or dismissal of the appeal, or within 60 days after receipt of an order of the Supreme Court denying an application for a writ of certiorari."

Rule 45(b), Federal Rules of Criminal Procedure:

> "Enlargement. When an act is required or allowed to be done at or within a specified time, the court for cause shown may at any time in its discretion (1) with or without motion or notice, order the period enlarged if application therefor is made before the expiration of the period originally prescribed or as extended by a previous order or (2) upon motion permit the act to be done after the expiration of the specified period if the failure to act was the result of excusable

[2]See Reporter's Transcript.

[3]See Certificate by Clerk of District Court, Southern District of California.

neglect; but the court may not enlarge the period for taking any action under Rules 33, 34 and 35, except as otherwise provided in those rules, or the period for taking an appeal."

Section 174 of Title 21, United States Code:

"Whoever fraudulently or knowingly imports or brings any narcotic drug into the United States or any territory under its control or jurisdiction, contrary to law, or receives, conceals, buys, sells, or in any manner facilitates the transportation, concealment, or sale of any such narcotic drug after being imported or brought in, knowing the same to have been imported or brought into the United States contrary to law, or conspires to commit any of such acts in violation of the laws of the United States, shall be imprisoned not less than five or more than twenty years and, in addition, may be fined not more than $20,000.

* * * * *

"For provision relating to sentencing, probation, etc., see section 7237(d) of the Internal Revenue Code of 1954.' "

Section 7237(d) of Title 26, United States Code:

"No suspension of sentence; no probation; etc.— Upon conviction—(1) of any offense the penalty for which is provided in . . . subsection (c) . . . of section 2 of the Narcotic Drugs Import and Export Act, as amended. . . ."

". . . the imposition or execution of sentence shall not be suspended, probation shall not be granted, section 4202 of title 18 of the United States Code shall not apply, . . ."

Section 4208 of Title 18, United States Code:

"(a) Upon entering a judgment of conviction, the court having jurisdiction to impose sentence, when in its opinion the ends of justice and best interests of the public require that the defendant be sentenced to imprisonment for a term exceeding one year, may (1) designate in the sentence of imprisonment imposed a minimum term at the expiration of which the prisoner shall become eligible for parole, which term may be less than, but shall not be more than one-third of the maximum sentence imposed by the court, or (2) the court may fix the maximum sentence of imprisonment to be served in which even the court may specify that the prisoner may become eligible for parole at such time as the board of parole may determine."

Section 7 of Public Law 85-752, 72 Stat. 847 (1958):

"This Act does not apply to any offense for which there is provided a mandatory penalty."

III.

STATEMENT OF THE CASE.

Appellant was one of four defendants indicted on November 18, 1959 [T. R. 2][4], for violation of Title 21, United States Code, Section 174. The other defendants entered pleas of guilty to one count each. Appellant pleaded not guilty, and her case was tried by a jury before the Honorable Leon R. Yankwich, District Court Judge. Appellant was found guilty on two counts, one alleging the unlawful receipt, concealment

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[4]T. R. refers to Transcript of Record in Appeal 17,966 in this Court, a prior appeal in this case.

and transportation of 506 grams, 530 milligrams of heroin; the other count charging conspiracy to unlawfully receive, conceal, sell, and transport heroin. On March 1, 1960, the Court sentenced Appellant and two other defendants to imprisonment for a period of 10 years each [T. R. 115, 116, 117]. Each judgment contained the following proviso:

> "It Is Further Ordered that the defendant may become eligible for parole as the Board of Parole may determine, pursuant to Section 4208, Title 18, U. S. C. A. . . ."

The fourth defendant had been previously sentenced, on February 25, 1960, to imprisonment for a period of five years [T. R. 112, 113].

Upon appeal by Appellant, this Court affirmed the judgment on November 21, 1962. *O'Neal v. United States,* 310 F. 2d 175 (9th Cir. 1962). The mandate, issued upon such affirmance, was received by the District Court on January 3, 1963.[5]

It was apparently learned by Appellant that the Attorney General was challenging the validity of the proviso in her sentence allowing parole under Section 4208. On February 21, 1963, Appellant applied to the District Court in which she had been sentenced for a reduction of her sentence pursuant to Rule 35 of the Federal Rules of Criminal Procedure [C. T. 2].

On March 11, 1963, a hearing was held on Appellant's application.[6] The following day, the Court entered the order which denied Appellant's application and struck the parole proviso from her sentence [C. T. 10].

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[5]See note 3, *supra.*

[6]See Reporter's Transcript.

IV.

SUMMARY OF ARGUMENT.

1. The provision relating to parole in Appellant's sentence was unlawful, and was therefore properly struck by the Court below. In this respect, the reasoning and authority of the recent case of *Rivera v. United States,* 318 F. 2d 606 (9th Cir. 1963), is principally relied upon.

2. At the time of the hearing on Appellant's motion and thereafter the District Court lacked jurisdiction to reduce the sentence. Consequently, even if it so desired, the trial court could not have granted the requested relief. In support of this view, the Government relies on both judicial authority and the express language of Rules 35 and 45(b) of the Federal Rules of Criminal Procedure.

3. Even if this Court were to treat Appellant's application as proper, the judgment of the trial court should not be reviewed, inasmuch as the sentence was within the limits of the statute.

4. And examination of the record reveals no abuse of discretion.

V.

ARGUMENT.

A. The Court Below Properly Struck From the Sentence the Proviso Relating to Parole.

Appellant in her opening argument contends that the trial judge erred in striking the provisions for parole from the original sentence. In support of this position, Appellant makes an interesting distinction between parole under Section 4202 and parole under Section 4208 of Title 18, United States Code; notes further that Section 7237(e) of Title 26, United States Code, was never amended to preclude parole under Section 4208; labels Section 4208 as a " 'remedial' statute of humanitarian intent" which should not be restricted; and concludes that Congress only intended to deny parole during the mandatory minimum period of sentence.

However ingenious Appellant's argument may be, it overlooks the legislative intent behind the Narcotic Control Act of 1956 and the intent behind Section 4208. Also disregarded is Section 7 of the same statute which enacted 4208:

> "This Act does not apply to any offense for which there is provided a mandatory penalty." Public Law 85-752, 72 Stat. 847 (1958).

This very question came before this Court recently in the case of *Rivera v. United States,* 318 F. 2d 606 (9th Cir. 1963). A prisoner brought a motion under Title 28, United States Code, Section 2255, which challenged the validity of a sentence almost identical to the one at hand. This Court held that the provisions of Section 4208 are inapplicable to narcotic offenses under Title 21, United States Code, Section 176(a).

See also *Robinson v. United States,* 313 F. 2d 817 (7th Cir. 1963), where the Court held that the provisions of 4208 did not apply to violations of Section 174, Title 21, United States Code.

B. The Denial of Appellant's Motion for Reduction of Sentence Was Proper Inasmuch as the Trial Court Lacked Jurisdiction to Grant the Motion.

The remainder of Appellant's brief is devoted to the reasonableness of the lower Court's opinion in denying Appellant's motion. Appellee submits that whether the trial court was reasonable or not is immaterial because that court had no power to reduce the sentence.

The mandate of this Court affirming the previous judgment was received by the District Court on January 3, 1963.[7] Appellant filed her motion to reduce sentence on February 21, 1963 [C. T. 2]. The hearing occurred on March 11, 1963.[8] It is submitted that at the time of that hearing, the Court below had lost jurisdiction to reduce the sentence.

Rule 35 of the Federal Rules of Criminal Procedure allows the Court to reduce a sentence "within 60 days after receipt by the court of a mandate issued upon affirmance of the judgment or dismissal of the appeal." It will be noted that the language calls for the reduction within 60 days, rather than for a reduction upon "motion filed within 60 days."

Furthermore, it is clear from a reading of other Rules, that where the intent is only to restrict the time for filing a motion and not the power of the court, such intent is expressed. For example, see:

Rule 33,

"A *motion* for a new trial based on any other grounds *shall be made within 5 days* after verdict or finding of guilty or within such further time

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[7]See note 3, *supra*.

[8]See Reporter's Transcript.

as the court may fix during the 5-day period." (Emphasis added).

Rule 34,

"The *motion* in arrest of judgment *shall be made within 5 days* after determination of guilt or within such further time as the court may fix during the 5-day period." (Emphasis added).

The decisive Rule, however, is 45(b). It provides in pertinent part:

"When an act is required or allowed to be done at or *within a specified time, the court for cause shown* may . . . order the period enlarged if application therefor is made before the expiration of the period originally prescribed . . . but the court may not enlarge the period for taking any action under Rules 33, 34 and 35, except as otherwise provided in those rules, or the period for taking an appeal."

The Supreme Court also takes the view that after the 60 days have lapsed, the trial court has no power to reduce a sentence rendered by it. In *United States v. Robinson,* 361 U. S. 220, 80 S. Ct. 282 (1960) (dictum), the Court held that the Circuit Court of Appeals had no jurisdiction over an appeal which was filed after expiration of the time prescribed in Rule 37(a)(2). The Court stated, at 225:

"If, as the Court of Appeals has held, the delayed filing of a notice of appeal—found to have resulted from 'excusable neglect'—is sufficient to confer jurisdiction of the appeal, it would consistently follow that a District Court may, upon a like finding, permit delayed filing of a motion for new trial under Rule 33, of a motion in arrest of

> judgment under Rule 34, and the reduction of sentence under Rule 35, at any time—months or even years—after expiration of the period specifically prescribed in those Rules.
>
> "This is not only contrary to the language of those Rules, but also contrary to the decisions of this Court." (Footnotes omitted).

For examples of other decisions where the sixty-day requirement is treated as jurisdictional see, *Urry v. United States,* 316 F. 2d 185 (10th Cir., 1963); *United States v. Chicago Professional Schools, Inc.,* 302 F. 2d 549 (7th Cir. 1962); *United States ex rel. Quinn v. Hunter,* 162 F. 2d 644 (7th Cir. 1947); *United States v. Baker,* 170 F. Supp. 651 (E.D. Ark. 1959), *aff'd,* 271 F. 2d 190 (8th Cir.); *United States v. Howell,* 103 F. Supp. 714 (S.D. W. Va. 1952), *aff'd,* 199 F. 2d 366 (4th Cir.); *United States v. Martin,* 8 F.R.-D. 89 (W.D.S.C. 1948), *aff'd,* 168 F. 2d 1003 (4th Cir.), *cert. denied,* 335 U. S. 872.

The rule is a sound one. It substitutes for the varying periods resulting under the old term rule a constant and reasonable time in which to modify a sentence improvidently made. But as the Supreme Court has pointed out, "the Rules, in abolishing the term rule, did not substitute indefiniteness. On the contrary, precise times, independent of the term, were prescribed. The policy of the Rules was not to extend power indefinitely but to confine it within constant time periods." *United States v. Smith,* 331 U. S. 469, 473-474 67 S. Ct. 1330 (1947). See also the Advisory Committee Notes, reprinted in 4 Barron, Federal Practice and Procedure 303, at n. 24 (Rules ed. 1951).

In view of the foregoing, it is respectfully submitted that Appellant was not entitled to a reduction in sentence on March 11, 1963, and consequently the Court's refusal to grant such relief cannot now be reviewed.

C. Assuming That Appellant Had Brought a Proper Motion, the Reduction of Sentence Is Within the Trial Court's Sole Discretion and Not Subject to Review.

This Court may wish to treat Appellant's application as a motion under 28 U. S. C. §2255, the theory being that the inclusion of the invalid proviso rendered the whole sentence unlawful and subject to being vacated. See *Rivera v. United States,* 318 F. 2d 606 (9th Cir., 1963), and *Robinson v. United States,* 313 F. 2d 817 (7th Cir., 1963). Or, in the alternative, the Court may wish to regard the application as a motion under Rule 35 to correct an illegal sentence, the entire sentence being unlawful on its face, because of the included provision. The District Court would have jurisdiction over either of these motions.

It is undisputed that the ten year sentence was within the statutory limits. The question now is whether the trial court's decision should be reviewed. In this respect, this Circuit had adhered to the following principle:

> " ' "If there is one rule in the federal criminal practice which is firmly established, it is that the appellate court has no control over a sentence which is within the limits allowed by a statute." Gurera v. United States, 8 Cir., 1930, 40 F. 2d 338, 340.' Brown v. United States, 9 Cir., 1955, 222 F. 2d 293, 298." *Pependrea v. United States,* 275 F. 2d 325, 330 (9th Cir. 1960).

Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the 9th Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

BURT PINES,
Assistant U. S. Attorney.

No. 18780

IN THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

CLARKE E. DAVENPORT,

Appellant,

v.

MUTUAL OF OMAHA INSURANCE COMPANY
and CONTINENTAL CASUALTY COMPANY,

Appellees.

APPELLEES' BRIEF

Appeal from the United States District Court for
the District of Oregon

THE HONORABLE WILLIAM T. BEEKS, Judge

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No. 18780

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THE HONORABLE WILLIAM T. BEEKS, Judge

STATEMENT OF THE CASE

In order to correct the omissions and inaccuracies in the portion of appellant's brief containing his statement of the case, appellees deem it necessary to make the following statement:

A. Nature of the action.

This is an action brought by appellant to recover damages for alleged fraud.

The action involves two policies of health and accident insurance issued to appellant, one by each appellee. However, appellant has expressly disavowed any claim based upon those policies (R. 17). Instead, he seeks to recover damages resulting from appellees' alleged fraud in obtaining releases of purported claims under the policies, after which appellant voluntarily permitted the same to lapse (R. 16-20).

Appellant asserts that, by reason of the alleged fraud, he lost certain anticipated benefits he would otherwise have obtained under the policies, i.e., $900 on the policy issued by appellee Continental Casualty Company, and $1,120 on the policy issued by appellee Mutual of Omaha Insurance Company (R. 17, 18). He seeks to recover $100,000 in actual and punitive damages (R. 20).

By reason of the contentions contained in the pretrial order, one question before the District Court was whether diversity jurisdiction existed in this case. In this connection, the issue was whether appellant's claim was for less than the amount required to confer jurisdiction on the United States District Court in a diversity action. Thus, appellees contended that the amount in controversy did not exceed $10,000 (R. 21, 22), and appellant contended that the same was $100,000 (R. 20), $2,020 as actual damages and the remainder as punitive damages.

B. Nature of the judgment.

This action came on for trial on March 18, 1963, before The Honorable William T. Beeks, sitting with a jury (Tr. 1). After plaintiff rested his case, appellees renewed their previous motion to strike appellant's allegations relative to punitive damages. They further moved, in the event the foregoing motion should be allowed, that the cause be dismissed for lack of jurisdiction (Tr. 83-86). These motions were granted (Tr. 97-98, R. 28).

March 19, 1963, the court entered its judgment of dismissal (R. 29-30), which provided in part as follows (R. 30):

> "it is hereby
>
> "ORDERED AND ADJUDGED that plaintiff's claim for exemplary damages be and the same hereby is stricken on the grounds and for the reason that there is no evidence supporting said claim; plaintiff's contentions for punitive damages are sham and frivolous and were made in bad faith without any foundation or justification whatsoever. It is further
>
> "ORDERED AND ADJUDGED that the above-entitled action be and the same hereby is dismissed for lack of jurisdiction by this court."

C. Question presented on appeal.

The following question is presented for decision on this appeal:

Did the District Court correctly dismiss this action?

D. Summary of Facts.

The following facts appear from the agreed facts of the pretrial order and from the transcript of testimony:

August 25, 1951, appellee Continental Casualty Company issued a policy of health and accident insurance to appellant. A second policy was issued to him on December 20, 1951, by appellee Mutual of Omaha Insurance Company. Both policies were in effect during September and October, 1959 (R. 15).

In 1954, appellant consulted Dr. Merlin Harvey Johnson, a Portland, Oregon, ophthalmologist, concerning blurred vision of the right eye. July 8, 1959, he consulted Dr. Johnson with respect to discomfort in his eye. On both occasions glasses were prescribed (Tr. 4-5, 36).

Thereafter, appellant consulted Dr. Carroll, a "drugless practitioner" in Seattle. The latter advised appellant to return to Dr. Johnson for further examination as he believed something to be wrong with appellant's eye (Tr. 6).

November 13, 1959, appellant again visited Dr. Johnson. On that occasion, Dr. Johnson told him he had a detached retina of the right eye (Tr. 6-7, 37), and advised immediate surgery (Tr. 7, 45-46). In this connection, Dr. Johnson advised appellant that his eye condition was very serious and that without treatment he would lose his vision. He stated that even with treatment appellant might lose his vision and that delay would increase this possibility (Tr. 43). Dr. Johnson advised appellant that his condition was not due to an accident, but was a sickness (Tr. 51-53).

December 14, 1959, appellant filed a notice and proof of loss with each appellee, claiming benefits for disability (R. 15-16).

After filing his claims with appellees, appellant authorized each of them to interview his physician (Tr. 12). Accordingly, representatives of both appellees interviewed Dr. Johnson orally. He advised them that appellant had a retinal detachment which required surgery (Tr. 38-41). The information given appellees by Dr. Johnson was the same as that which he had already given to appellant (Tr. 49).

In January, 1960, Francis E. LaFrance, claims adjuster for appellee Mutual of Omaha Insurance Company (Tr. 76), called on appellant, bringing a check in the sum of $150 as a proposed settlement of appellant's purported claim and a release for appellant's signature should he wish to accept such settlement (Tr. 12-14). Appellant had not then met LaFrance, nor had he discussed the matter with him or any other representative of appellee Mutual of Omaha (Tr. 57). Appellant had, however, read his policy (Tr. 56), and, as indicated hereinabove, he had been fully apprised of his condition by Dr. Johnson.

LaFrance believed that appellant's claim was not covered by his company's policy and so advised appellant. Appellant's condition was not caused by accident and he was not continuously and totally disabled so as to come within the coverage for sickness except for a very short period. LaFrance further advised appellant that the company would make a compromise settlement (Tr. 78). Accordingly, on January 13, 1960, appellee Mutual Benefit of Omaha Insurance Company paid appellant the sum of $150 in return for his execution of a full and final release (R. 16). Appellant read the release prior to signing it (Tr. 56).

Thereafter, Raymond F. Landgraf, local claims manager of appellee Continental Casualty Company (Tr. 73), called on appellant. He advised appellant that his claim was not covered by the policy issued by appellee Continental Casualty Company (Tr. 16-18). Appellant had read this policy (Tr. 58), and of course had the information given him concerning his condition by Dr. Johnson. As a result of this visit, appellee Continental Casualty Company on January 30, 1960, paid appellant the sum of $250 in return for the execution of a full and final release (R. 16). Again, appellant had read the release prior to signing the same (Tr. 59).

Thereafter, appellant voluntarily allowed his policies to lapse for nonpayment of premiums. The policy issued by appellee Continental Casualty Company expired no earlier than December 1, 1959, and the policy issued by appellee Mutual of Omaha Insurance Company expired no earlier than January 30, 1960 (R. 16).

Later in 1960, appellant's condition worsened (Tr. 22). As a result, he underwent surgery on July 25, 1960, September 15, 1960, September 29, 1960, and October 26, 1960 (Tr. 23).

ARGUMENT

<u>The District Court properly dismissed this action.</u>

This is a strange case. In it, appellant seeks to invoke the diversity jurisdiction of the United States District Court on a claim for $100,000 compensatory and punitive damages, the compensatory damages amounting to $2,020. However, under

appellant's pleadings and proof, there is absolutely no basis for recovery of punitive damages by him. His attempt to invoke federal diversity jurisdiction is, therefore, a travesty.

Under the circumstances, the judgment of the United States District Court dismissing the action must be affirmed.

A. A diversity action must be dismissed if it appears from the pleadings or proof that the plaintiff was never entitled to recover the jurisdictional amount.

Of course, the United States District Courts have diversity jurisdiction in civil actions where the matter in controversy exceeds $10,000, exclusive of interest and costs.

28 USCA Section 1332

This jurisdictional requirement is satisfied by proof of a good-faith demand in excess of the jurisdictional amount.

Allman v. James Healing Company (D NJ, 1956) 142 F Supp 673, 679

> "* * * the jurisdictional requirement is satisfied by proof of a good faith demand in excess of $3,000." (Emphasis added)

However, if it appears from the pleadings or proof that a plaintiff was never entitled to recover the amount claimed, and therefore that his claim was colorable for the purpose of conferring jurisdiction, the action must be dismissed.

St. Paul Mercury Indemnity Co. v. Red Cab Co. (1937) 303 US 283, 289-290, 82 L ed 845, 848-849

> "* * * if, from the face of the pleadings, it is apparent, to a legal certainty, that the plaintiff cannot recover the amount claimed or if, from the proofs, the court is satisfied to a like certainty that the plaintiff never was entitled to recover that amount, and that his claim was therefore colorable for the purpose of conferring jurisdiction, the suit will be dismissed."

Lynn v. Smith (WD Penn, 1961) 193 F Supp 887, 894

> "This court is satisfied to a certainty that from the proofs offered by plaintiff at the trial of his case he was never entitled to recover the jurisdictional amount. From the start his claim was therefore colorable for the sole purpose of conferring diversity jurisdiction. * * * To permit this plaintiff and his counsel to enlarge a neighborhood Justice of the Peace dispute over a boundary line into a federal case is simply to emasculate the diversity statute. Plaintiff never did have a $10,000 lawsuit. The diversity jurisdiction of the Federal court cannot be invoked simply by a demand made by a plaintiff in the addendum clause that the amount in controversy exceeds $10,000, when the proofs at the trial show to a legal certainty that an award of even one-half of the necessary jurisdictional amount would have been excessive. Such is this case. The evidence in this case requires a dismissal of this civil action even after the case has been tried. It will be so ordered."

B. If punitive damages are not recoverable, the same cannot be included in determining the jurisdictional amount.

It needs no citation of authority to show that punitive damages may be included in determining the jurisdictional amount if such damages are legally recoverable. However, a contrary rule obtains if the plaintiff cannot legally recover such damages.

Thompson v. Mutual Benefit Health & Accident Ass'n (ND Iowa, 1949) 83 F Supp 656, 658

> "The question involved is whether the amount in controversy exceeds the sum of $3,000 exclusive of interest and costs. Exemplary damages in a complaint may be included in computing the amount necessary for federal court jurisdiction. Young v. Main, 8 Cir., 1934, 72 F.2d 640. However, if under the applicable state law it would be legally impossible to recover actual and exemplary damages in the amount required for federal court jurisdiction, a claim in a complaint for the required amount will not confer jurisdiction. 1 Cyclopedia of Federal Procedure, 2d Ed., 348."

Deming v. Buckley's Art Gallery (WD Ark., 1961) 196 F Supp 247

This was an action to recover $6,554 actual damages and $5,000 punitive damages. The court concluded that the plaintiff could not recover punitive damages under the applicable law, that of the state of Arkansas, and therefore dismissed the action for lack of jurisdiction.

The pertinent inquiry is, therefore, whether the punitive damages claimed by appellant are legally recoverable. The answer is unquestionably "No."

C. The pleadings and proof in this case show that appellant was never entitled to an award of punitive damages.

As a diversity court in effect sitting in the state of Oregon, this court is, of course, bound to follow the principles of law enunciated by the Oregon Supreme Court. Consequently, the question of whether punitive damages were ever legally recoverable by appellant is to be determined under the law of that state.

1. Appellant did not allege or prove the actual damages necessary to support a claim for punitive damages.

In order to recover punitive damages, appellant must first show that he has suffered actual damages.

Martin v. Cambas (1930)
134 Or 257, 261, 293 P 601,
603

The measure of damages in a fraud case is the value of the plaintiff's property or right relinquished at the time of the alleged fraud.

Automobile Underwriters, Inc.
v. Rich (1944) 222 Indiana 384,
53 NE2d 775

Appellant does not claim any loss at the time of the taking of the releases. The loss, he claims, occurred six months later. Accordingly, he did not suffer the actual damages necessary to support a claim for punitive damages in an action for fraud.

2. The facts of this case do not justify an award of punitive damages.

At the outset, it must be noted that punitive damages are awarded only if precedent requires the allowance of such damages.

Perez v. Central Nat'l Ins. Co. (1958) 215 Or 107, 110, 332 P2d 1066, 1067

> "The doctrine of punitive damages viewed in the most favorable light is subject to criticism. Van Lom v. Schneiderman, supra. It should not be extended past the point to which our precedents commit us."

Appellant has cited no case which would permit recovery of punitive damages in this case. Nor could he do so. There is no Oregon precedent for an award of punitive damages under facts such as those involved in this case. In fact, the Oregon court has refused such recovery in similar cases. Thus, punitive damages will not be awarded in a fraud case unless the fraud is accompanied with extraordinary or exceptional circumstances of aggravation clearly indicating malice and willfulness.

Cays v. McDaniel et al (1955) 204 Or 449, 457-458, 283 P2d 658, 661-662

"Punitive damages are not a favorite of the law. The primary concern of the law is the payment of just compensation for the wrong done. Although in proper cases punitive damages are allowable, nevertheless, the tendency of the courts is to restrict rather than to extend their allowance. It is quite well established by the authorities that punitive damages are not allowable in cases of simple fraud; to be allowable, the fraud must be an aggravated one, as where it is gross, malicious, or wanton. * * *

"We are of the opinion, therefore, that punitive damages are not recoverable in an action of damages for fraud and deceit, unless the fraud is accompanied by extraordinary or exceptional circumstances of aggravation clearly indicating malice and willfulness.

"It is elementary that a complaint must allege facts sufficient to authorize the relief sought by a plaintiff. To be entitled to punitive damages in any case, it is necessary that plaintiff allege in his complaint the material facts justifying such allowance. If a plaintiff relies upon circumstances of aggravation as the basis of his claim for punitive damages, those circumstances must be alleged in the complaint. In Stark v. Epler, 59 Or 262, 266, 117 P 276, we quoted with approval the following from the opinion in Samuels v. Railroad Company, 35 SC 493, 501, 14 SE 943, 28 Am St Rep 883:

> "'To entitle the plaintiff to exemplary damages, he must not only prove the elements that enter into and make up this cause of action, but he must in the first place in his complaint set up distinctively the elements that made up his cause of action, and if he fails to do so, his complaint should be dismissed.'" (Emphasis added)

Consonant with this pronouncement, the Oregon court has declined to permit recovery of punitive damages in the following cases, which are analogous to that at bar:

Perez v. Central Nat'l Ins. Co. (1958) 215 Or 107, 332 P2d 1066

This was an action to recover actual and punitive damages for conversion of an automobile by the defendant

insurance company ("Central"), acting through its agent ("Owen"), an insurance adjuster.

Central had issued a $50 deductible policy on the automobile, which became a total loss in a collision. Without being authorized to do so, Owen sold the wrecked automobile to the highest bidder for $166.49.

Thereafter, the plaintiff met with Owen's agent, one Thompson, to discuss settlement under the policy. She introduced evidence that Thompson attempted to obtain her signature on the settlement papers by threats that she would " get in trouble" if she did not sign. The plaintiff characterized Thompson's conduct as "high-handed."

In that case, the Oregon Supreme Court affirmed the trial court's order setting aside a judgment for punitive damages. Its comment is quoted hereinabove (supra, page 10).

<u>Ridgeway v. McGuire (1945) 176 Or 428, 158 P2d 893</u>

This was an action against a real estate broker ("McGuire") and one of his salesmen ("Rossman") to recover an alleged secret profit.

In October, 1942, the plaintiffs listed certain real property with McGuire for sale at a price of $2,750. In November, 1942, Rossman told them he could not sell the property for the listed price, but that he had a prospective purchaser who would pay $1,950. The plaintiffs, who were inexperienced and uninformed as to property values, consented to such sale. Unknown to them, Rossman himself bought the property and sold the same for a $1,800 profit.

The Oregon Supreme Court affirmed judgment on a verdict for the plaintiff on the grounds that (1) McGuire and Rossman failed to disclose for whom Rossman bought the property, and (2) they owed a duty to secure the highest price for the plaintiff. Furthermore, it affirmed the trial court's elimination of the plaintiff's punitive damage claim.

Of course, the facts in the foregoing cases are more flagrant than those involved in the case now before the court. Thus, as indicated hereinabove (supra, pages 3-6), this case presents the following factual situation:

Appellant held health and accident policies issued by appellees. In November, 1959, his physician advised him that he suffered from a detached retina of the right eye. At that time, the doctor fully advised appellant as to his condition. He told him that the same was extremely serious, requiring immediate surgery; that if he was not treated he would surely go blind; and that even with treatment, this might occur. The doctor also told appellant that his condition was caused by sickness, not accident.

Thereafter, appellant filed claims on his policies. In this connection, he authorized appellees to call on his physician for information as to his condition. They did so, and were advised of the facts which appellant already knew. All their information was obtained from appellant's doctor and was known to appellant.

Appellees' representatives then called on appellant. First, he met with LaFrance, claims adjuster for appellee

Mutual of Omaha Insurance Company. Prior to this occasion, LaFrance and appellant had never met. Appellant had not discussed his claim with LaFrance or any representative of his company. He had, however, read his policy.

LaFrance believed that appellant's claim was not covered by his company's policy, and so advised him. LaFrance suggested that the company would be willing to negotiate a compromise settlement. This was agreed upon, and appellant received a $150 check in exchange for a release which he read before signing.

After these events, appellant had an almost identical meeting with Landgraf, who represented appellee Continental Casualty Company. At that time, he accepted a $250 check in exchange for a release, which he again read before signing.

Subsequent to the execution of the releases, appellant permitted his policies to lapse for nonpayment of premiums, and still later he was required to undergo surgery.

Certainly this does not reveal any gross, malicious or wanton conduct on the part of appellees. Viewing the facts in the light of the applicable law, it is clear that appellant was never entitled to recover punitive damages. His claim for such damages is sham.

In addition, there is another reason why punitive damages are not recoverable in this case. When appellant brought this action, he had two choices. He could have (1) brought an action on his policies, and, when the releases were asserted in defense thereof, requested that the same be set

aside on grounds of fraud, or (2) disregarded the policies and brought an action for fraud in obtaining the releases. He chose the latter course. If he had instead pursued the former, the releases would not have been set aside. In such an action, appellant could at most have urged that the releases were improvident. The facts of this case would permit him to go no further. Under these circumstances, the law of Oregon would not have permitted the court to cancel the release.

Wheeler v. White Rock Bottling Co. (1961) 229 Or 360, 367, 366 P2d 527, 530

> "* * * while we are mindful of the trend elsewhere toward treating releases as binding only when they do not result in hardship, we believe that our own decisions and previous choices of competing policy considerations require us to reject mere improvidence as a plausible ground for setting aside otherwise unimpeachable contracts."

As the releases could not be set aside, the Oregon court surely would not permit punitive damages in an action arising out of the execution of the same.

The words of the District Court aptly summarize the defects in appellant's position (Tr. 97-98):

> "I am at a loss to understand the factors which prompted plaintiff to bring this action in this court, instead of in the State court, which is a court of general jurisdiction. This court is well-known to be a court of limited jurisdiction. In a case such as this, there must be a diversity of citizenship, which exists here, and the amount in controversy must in good faith exceed the amount of $10,000, and here the jurisdiction of this court is dependent upon the contention that the plaintiff is entitled to punitive damages; in other words, that the alleged fraud to which he was subjected must be of an aggravated character indicating malice or willfulness. It must be gross, malicious, or wanton.

"It is the opinion of the Court that such an element is entirely lacking here. There is not a scintilla, not an iota of evidence to support it. It is my view that the contentions of plaintiff with respect to punitive or exemplary damages as set forth in paragraph V of plaintiff's contentions in the pretrial order are sham and frivolous, that they were made in bad faith as a matter of law if not in fact, that they were irresponsibly made, and they are without any foundation or justification whatsoever. They are at best a figment of someone's imagination. It is my opinion that this court is without jurisdiction of the matter in controversy.

"It is, therefore, the order of the Court that the action be dismissed for lack of jurisdiction, with costs to both defendants."

CONCLUSION

For the reasons set forth hereinabove, this court should affirm the judgment of the District Court dismissing this action.

Respectfully submitted,

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CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

CLIFFORD N. CARLSEN, JR.

Of Attorneys for Appellee,
Mutual of Omaha Insurance Company

No. 18782

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

RUBEN R. CORTEZ,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

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TOPICAL INDEX

TABLE OF AUTHORITIES CITED

No. 18782

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

Ruben R. Cortez,

Appellant,

vs.

United States of America,

Appellee.

APPELLEE'S BRIEF.

I.
JURISDICTIONAL STATEMENT.

This is an appeal from the judgment of the United States District Court for the Southern District of California, denying appellant's motion to vacate the judgment, sentence, and commitment in Case No. 30337 Criminal, Southern Division of the Southern District of California.

The District Court had jurisdiction by virtue of Title 28, United States Code, Section 2255. Jurisdiction of this Court rests pursuant to Title 28, United States Code, Sections 1294 and 2255.

II.
STATEMENT OF THE CASE.

On August 30, 1961, the Federal Grand Jury in the Southern Division of the Southern District of California returned a two-count Indictment against Aurora

Cortez, appellant Ruben Raymond Cortez, and Roger Cortez. Aurora Cortez was charged in Count One with the illegal importation of heroin under Title 21, Section 174, United States Code, and appellant and Roger Cortez were charged in the same count, under the same statute, with aiding, assisting, abetting, counselling, commanding, inducing, and procuring the abovementioned offense by Aurora Cortez.

Appellant alone was charged in Count Two of the Indictment with forcibly resisting, opposing, impeding, and interfering with United States officers in the performance of their official duties, in violation of Title 18, United States Code, Section 111 [C. T. 2-3].[1]

Appellant entered a plea of not guilty as to each count on September 18, 1961 [C. T. 4], and entered a guilty plea as to each count on October 17, 1961 [R. T. 35-36].[2]

Thereafter, on November 14, 1961, appellant was committed to the custody of the Attorney General for one year upon Count Two and six years upon Count One, the latter sentence to run consecutive to the former [C. T. 5].

On July 23, 1962, appellant wrote a letter which the District Court considered as a petition for relief under Title 28, United States Code, Section 2255 [C. T. 8]. Appellant alleged that his guilty plea was not the product of free choice and that he was innocent [C. T. 9].

The hearing upon the motion was conducted on December 3, 1962 [C. T. 10]. The motion was denied on April 11, 1963 [C. T. 19]. Appellant thereafter filed a notice of appeal [C. T. 24].

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[1]"C. T." refers to the Clerk's Transcript of Record.
[2]"R. T." refers to Reporter's Transcript of Proceedings.

III.

ERROR SPECIFIED.

Appellant originally specified two points on appeal:

1. That the trial court committed error prior to the Section 2255 hearing by allegedly holding two *ex parte* hearings without appellant's presence.

2. That the trial court violated appellant's constitutional rights by remanding him to confinement without signing an order showing that findings of fact and conclusions of law had been made with respect to the relief sought under Section 2255 [C. T. 24-25].

Appellant's Opening Brief does not mention the above contentions and lists two questions upon appeal, which may be summarized as follows:

1. Was the plea of guilty voluntary? (assuming certain disputed facts).

2. Was the plea of guilty coerced as a matter of law?

IV.

STATEMENT OF THE FACTS.

Appellant, charged in a two-count Indictment with aiding and abetting, etc., the smuggling of heroin by Aurora Cortez, and with resisting, opposing, etc., Federal officers [C. T. 2-3], entered a plea of not guilty as to each count on September 18, 1961 [C. T. 4]. Aurora Cortez, also charged in Count One, was appellant's wife [R. T. 10].

Appellant was out on bail awaiting trial [R. T. 12]. His appointed attorney, Howard Wiggins talked to him two or three times before the day of trial [R. T. 43-44] and also talked to a witness, Helena Willcut [R. T. 49]. Appellant also talked to an attorney of his own choice, Mr. Hughes, on two or three occasions and received advice from him [R. T. 16].

Appellant told Mr. Wiggins that he was innocent but told him conflicting stories [R. T. 46]. Appellant's wife, Aurora Cortez, withheld one of the essential facts of the case from Mr. Wiggins in appellant's presence [R. T. 48]. Mr. Wiggins told appellant that he had talked to Helena Willcut and found her testimony "very damaging" on the narcotics charge [R. T. 49], that she said that he had seemed "extremely nervous" and "very concerned with the traffic that would be coming back from the border" [R. T. 50].

Mr. Wiggins also informed appellant that the Government had witnesses who would testify regarding sales of narcotics by appellant to school children or upon school grounds in the Oxnard-Ventura area [R. T. 51-52].

He informed appellant that he probably would be found guilty upon circumstantial evidence and "emphasized to him that we would have difficulty trying to get the jury to believe testimony put forward by both him and his wife for the reason that she had been convicted of perjury and he of a felony" [R. T. 53].

Attorney Wiggins warned appellant of the possible consequences if he went to trial and committed perjury [R. T. 67].

Mr. Wiggins telephoned an Assistant United States Attorney to suggest a disposition of the case [R. T. 54]. There was some discussion about a guilty plea by appellant to the offenses charged and by Aurora Cortez to a heroin tax offense [R. T. 55].

Mr. Wiggins told appellant that the trial judge would be Judge Mathes and that he had heard that Judge

Mathes was extremely tough on narcotics cases but that there was a possibility of having a different sentencing judge in the event of a guilty plea [R. T. 64].

On the morning of the trial date appellant told Mr. Wiggins that he had decided to plead guilty and that his wife would plead guilty under the tax statute [R. T. 56]. Mr. Wiggins told him that he was already to go to trial. There was a jury present in the courtroom that morning [C. T. 57].

Appellant entered a plea of guilty as to each count [R. T. 35-36]. He stated in court that that was his desire [C. T. 20]. The following conversation occurred:

> "The Court: Do you understand the offenses charged against you in Counts One and Two of the Indictment?
>
> Defendant Ruben Raymond Cortez: Yes, sir.
>
> The Court: Do you offer this plea of guilty *freely and voluntarily* and entirely of your own accord as to both offenses?
>
> Defendant Ruben Raymond Cortez: Yes, sir.
>
> The Court: *Are you entirely sure you wish to confess the crimes* charged against you in Counts One and Two of the Indictment by pleading guilty to each of them?
>
> Defendant Ruben Raymond Cortez: Yes.
>
> The Court: *Are you guilty of those crimes?*
>
> Defendant Ruben Raymond Cortez: Yes, sir" [C. T. 21]. (Emphasis added).

The court then questioned Mr. Wiggins, who stated that in his opinion the pleas of guilty were *voluntarily* and understandingly offered [C. T. 21].

There was additional conversation between the court and appellant:

> "The Court: Ruben Raymond Cortez, has any promise of reward or any inducement of any kind been offered to you?
>
> Defendant Ruben Raymond Cortez: No, sir.
>
> The Court: To persuade you to change your plea?
>
> Defendant Ruben Raymond Cortez: No.
>
> The Court: Has there been any promise of any leniency in punishment?
>
> Defendant Ruben Raymond Cortez: No. . . .
>
> The Court: . . . Has there been any suggestion your wife would receive a lighter sentence if you pleaded guilty?
>
> Defendant Ruben Raymond Cortez: No, sir." [C. T. 22].

Mr. Wiggins talked to appellant three or four times afterwards, prior to sentence [R. T. 44].

At the time for sentence, November 14, 1961, appellant told Judge Carter, in effect, that he, appellant, was guilty of getting his wife into the predicament [R. T. 26], that he had "engineered the deal" with his wife and brother [R. T. 24-25].

Appellant indicated that he falsely admitted guilt because he was supposed to answer in the affirmative when asked by the judge whether he was guilty [R. T. 23]. However, he also answered in the affirmative when asked whether he had engineered the deal and used his brother and wife [R. T. 23], although he had not anticipated that question [R. T. 24].

At that time appellant knew that there were witnesses present, ready to testify against him [R. T. 36-37].

There was not at any time any direct contact between appellant and the United States Attorney's office [R. T. 71].

Aurora Cortez did plead guilty to a tax count charge, involving a minimum sentence of two years[3] and a maximum of twenty years. Her original charge involved a minimum sentence of five years with no probation, and a maximum of twenty [R. T. 80]. She was sentenced to two years in prison [R. T. 73].

Appellant testified [R. T. 15] that Attorney Wiggins told him that his wife "would get out on probation or something like that" if he pleaded guilty. Mr. Wiggins testified [R. T. 58] that he did not at any time tell appellant that his wife would go free if he pleaded guilty [R. T. 58].

Appellant testified that "at no time, to my knowledge, did Mr. Wiggins indicate that he believed or wanted to help me," and when asked whether Mr. Wiggins left the decision as to trial or plea up to him, he replied in the negative [R. T. 33]. Mr. Wiggins testified [R. T. 57] that he told appellant that appellant was to make the decision as to trial or plea and that "I told him I was ready to go to trial and that if we went to trial I would attempt to defend him as well as I possibly could."

Appellant testified [R. T. 42] that he told his attorney that he was swimming with his witnesses on the occasion in question. Mr. Wiggins testified [R. T. 50] that one of the witnesses, Helena Willcut, told him that appellant refused to go swimming on the occasion in question and was very concerned with the border traffic.

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[3]Unless, of course, probation was granted.

V.

ARGUMENT.

A. The Trial Court Did Not Err in Holding That Appellant's Pleas of Guilty Were Voluntarily Made.

The trial court held that appellant's pleas of guilty were voluntarily made [C. T. 5].

This is equivalent to a finding that appellant had failed to satisfy the burden of proof. The burden of proof rests upon a petitioner in a proceeding under Title 28, United States Code, Section 2255.

> *Holmes v. United States,* 323 F. 2d 430, at 431 (7th Cir. 1963), cert. denied, 376 U. S. 933 (1964);
>
> *Twining v. United States,* 321 F. 2d 432, at 435 (5th Cir. 1963), cert. denied, 376 U. S. 965 (1964);
>
> *Hearn v. United States,* 194 F. 2d 647, at 649 (7th Cir. 1952).

In such a proceeding, "Findings of fact cannot be set aside by an appellate court unless *clearly erroneous.* This rule applies likewise to all reasonable inferences of the trial judge."

> *Hearn v. United States, supra,* 194 F. 2d 647, at 649. (Emphasis added).

> "The issues of fact raised by the motion to vacate the judgment and sentence and to withdraw the plea of guilty were for the trial court to resolve, and its decision may not be overturned on appeal unless it is clearly erroneous and constitutes an abuse of discretion."
>
> *Harris v. United States,* 216 F. 2d 953 (5th Cir. 1954).

This is simply an application of the universal rule. The trier of fact has an opportunity to observe the demeanor of witnesses, the pauses in their testimony, and their changing expressions. A policy permitting the overthrow of findings of fact that are sustained by the evidence would tend to burden the appellate courts with countless appeals in which the only issues would involve credibility of witnesses, as determined from the cold record.

When a motion to vacate judgment is made under Section 2255 upon the ground, among others, that a plea of guilty was involuntary, "a finding by the court on this issue is 'then entitled to the same right and respect on appeal as is any other facts determination, which it is the court's duty to make.' "

> *Kennedy v. United States,* 249 F. 2d 257, at 258 (5th Cir. 1957).

The record fully sustains the conclusion that appellant failed to meet his burden of proof. He conferred with two attorneys before changing his pleas to guilty [R. T. 16, 43]. He talked to an attorney of his own choice, Mr. Hughes, upon two or three occasions [R. T. 16]. When he changed his pleas he told Judge Mathes that he was offering the guilty pleas freely and voluntarily [R. T. 21]. He was then asked if he wished to confess the crimes by pleading guilty and he answered, "Yes." He was then asked if he was guilty of the crimes and answered, "Yes, sir." [C. T. 21].

His attorney informed the court that in his opinion the pleas of guilty were *voluntarily* and understandingly offered [C. T. 21]. Appellant told the court that he had received no promises [C. T. 22].

Subsequently, and prior to sentence, appellant's attorney talked to him three or four times [R. T. 44].

Later, at the time for sentence, appellant, obviously referring to the heroin-smuggling charge, told Judge Carter that he had "engineered the deal" with his wife and brother [R. T. 24-25].

There was no direct contact between appellant and the United States Attorney's office [R. T. 71].

Appellant claimed that he had made false statements at the time of plea and the later sentencing date because he was instructed to do so [R. T. 23]. However, in considering the probability of truthfulness in this claim, the trial judge could consider the strong motive that appellant now has to falsify, as well as the fact that appellant admitted "engineering" the crime and using his brother and wife, although he had received no instructions in regard to answering that unanticipated question [R. T. 23-24].

The trial court also could consider the improbability that an innocent man would volunteer for a minimum sentence of five years merely to reduce his wife's sentence from a certain five years or more to a possibility of ten years.

The trial court also could examine appellant's testimony in the light of the contradictions between his testimony and (1) his statements to Judge Mathes, (2) his statement at the time of sentencing, (3) his attorney's testimony that he did not tell appellant that his wife would go free [R. T. 15, 58], (4) his attorney's testimony that he told appellant that it was appellant's decision as to whether to plead guilty [R. T. 33, 57], and (5) his attorney's testimony that he told appellant that he would attempt to defend him as well as he could [R. T. 33, 57].

In determining the weight to be accorded to the various factors that may have influenced appellant's decision to plead guilty, the trial court could consider the probability that appellant had little motive to go to trial after learning that the testimony of his own proposed witness, Helena Willcut, was "very damaging" on the narcotics charge [R. T. 49], that the Government had witnesses who would testify regarding sales of narcotics by appellant to school children or upon school grounds [R. T. 51-52], and that his attorney believed that he would probably be found guilty and emphasized that they would have difficulty trying to get the jury to believe his testimony and that of his wife, as he had been convicted of a felony and she had been convicted of perjury [R. T. 53].

Appellant also may have considered the possible problems involved if he committed perjury at trial, a subject mentioned in one of his attorney's conversations with him [R. T. 67]. There also was testimony concerning the possibility of having a different sentencing judge if he pleaded guilty [R. T. 64]. A change of plea is not involuntary merely because based upon the hope of obtaining a lighter sentence.

> *Alexander v. United States*, 290 F. 2d 252 (5th Cir. 1961), cert. denied, 368 U. S. 891 (1961).

Also see:

> *Jones v. United States*, 279 F. 2d 652 at 654 (9th Cir. 1960), cert. denied, 364 U. S. 875 (1960).

Many factors may have entered into appellant's change of plea. It was for the trier of fact to determine whether promises constituted a dominating factor sufficient to render the plea involuntary. Appellant's claim is based almost entirely upon his own testimony. This was a slender reed after appellant had entered a plea of innocence, subsequently changed his plea to guilty and admitted guilt, later told the probation officer that he was innocent [R. T. 39], subsequently told the sentencing judge that he was guilty,[4] and over eight months later [C. T. 8] claimed innocence again. It is hardly surprising that the trial judge found that appellant failed to meet his burden of proof.

The decision of the trial court was entirely consistent with this Court's holding in *Booth v. United States,* 251 F. 2d 296 (9th Cir. 1958), in which the appellant contended that his guilty plea was invalid because based upon the prosecutor's statement that he would recommend that the sentence run concurrently with a State court sentence. This Court summarily disposed appellant's contention. (At p. 297.)

In view of the thorough examination of appellant at the time he entered pleas of guilty and again at the time of sentence, his case is similar to the facts of *Peters v. United States,* 312 F. 2d 481 (8th Cir. 1963), in which the trial court and appellate court rejected the defendant's contention that his guilty plea was involuntary because he was promised that his sentence would not exceed three years.

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[4]Knowing that if he persisted in his claim to the probation officer, contrary evidence was available [R. T. 36-37].

In *Bone v. United States,* 277 F. 2d 63 (8th Cir. 1960), the defendant asserted that his guilty plea resulted from false promises by a Postal Inspector and an Assistant United States Attorney. The appellate court noted that if there were any promises, they were fulfilled, and also that the transcript of the sentencing proceedings, in which the defendant admitted guilt and mentioned no promises, demonstrated the weakness of his position. In *Bone,* unlike the instant case, the defendant was *not even granted a hearing* in the trial court. His appeal was dismissed (at p. 65) as "frivolous."

In *Swepston v. United States,* 289 F. 2d 166 (8th Cir. 1961), cert. denied, 369 U. S. 812 (1962), the defendant compiled a number of allegations, including the claim that his guilty plea had been coerced. His motion under Section 2255 was denied without a hearing. The opinion of the appellate court states: "His present belated allegations denying the truth of that which he had theretofore admitted in open court are mere conclusions, void of factual support and do not justify the granting of a hearing" (at p. 170).

Another case in which the denial of a hearing upon a Section 2255 motion was upheld upon appeal was *Olive v. United States,* 327 F. 2d 646 (6th Cir. 1964), in which the defendant asserted that his plea was involuntary because induced by his attorney's statement that the United States Attorney had entered into an agreement regarding sentence. The appellate opinion attaches great weight to the defendant's statements at the time of plea and at the time of sentence.

A hearing also was denied in *United States v. Orlando,* 327 F. 2d 185 (6th Cir. 1964), in which the defendant claimed, among other things, that his guilty pleas were induced by a guarantee by the United States Attorney that he would not receive over 15 years. His first Section 2255 motion was denied without a hearing and there was no appeal, and his second motion, based entirely upon the alleged promise, was denied without a hearing because containing one of the grounds of the first motion. The appellate court agreed with this holding but alternatively held that no hearing would have been required and also noted (at p. 189):

> "When the guilty plea was entered the appellant expressly acknowledged to the Court that it was voluntary and entered because he was guilty of the charge."

A hearing also was denied in *United States v. Davis,* 319 F. 2d 482 (6th Cir. 1963), in which the defendant alleged that he was coerced and tricked into pleading guilty by a Postal Inspector's threats and promises. In affirming the order of the trial judge, the Sixth Circuit based its opinion almost entirely upon the statements made at the time of arraignment.

The above-cited decisions in *Bone, Swepston, Olive, Orlando,* and *Davis, supra,* are not cited to support a proposition that hearings are not required (a close question under the present status of the law). Appellant had a hearing. However, these decisions illustrate the great importance attached by trial and appellate courts to statements made by defendants in open court. Considering the vital weight accorded to statements similar to those made by appellant before Judge Mathes and Judge Carter, it is completely unreasonable for appellant to contend that the trial court, in considering the record of appellant's statements in open court, and making its determination as to credibility of witnesses, arrived at a conclusion that was *"clearly erroneous."*

It also should be noted that there is some question as to the type of "promises" that may affect the voluntariness of a guilty plea. In *Tabor v. United States,* 203 F. 2d 948 (4th Cir. 1953), where a guilty plea was "in consideration of the remaining count being dismissed," the Fourth Circuit held that there were no promises (at p. 948).

One of the chief props in appellant's argument is based upon his statement about a "deal," mentioned at the time of sentence. This is repeatedly emphasized in Appellant's Opening Brief, at pages 8, 12, 13, and 14. Appellant overlooks the fact that the "deal" mentioned at the time of sentence [R. T. 23-26] was not a "deal" in regard to sentence or plea. *The "deal" was the scheme for smuggling heroin into the United States.* That is why appellant's attorney employed leading questions for the apparent purpose of obtaining a repudiation of the "deal" statement [R. T. 24-25] and that is why appellant was said to have *used* his brother and wife in the "deal." [R. T. 23].

VI.

CONCLUSION.

Since the decision of the trial court is fully supported by the evidence, even without reliance upon the general rule that the appellate court will only consider the evidence favorable to the prevailing party, it is respectfully submitted that the judgment of the District Court should be affirmed.

Respectfully submitted,

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Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

PHILLIP W. JOHNSON

No. 18783

In the

United States Court of Appeals

For the Ninth Circuit

STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY, a corporation,
Appellant,

vs.

ALICE WILLENE WILLIAMSON, a minor; JOHN BRENKMAN, a minor; CARL E. BRENKMAN; C. W. WADDOUPS; CLARA R. WADDOUPS; and SARA R. MURRY, dba RUDOLPH CHEVROLET,
Appellees.

Brief of Appellant

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Brief of Appellant

JURISDICTION

State Farm Mutual Automobile Insurance Company filed an action under the Federal Declaratory Judgment Act, 28 U.S.C. Sec. 2201, to determine a question of liability under a policy of insurance (R. 54-55*). Diversity of citizenship and the jurisdiction amount were duly alleged (R. 1) and

*The transcript of record for this appeal comes in two volumes. The documentary record appears in Volume 1 and in this brief is designated by references in parenthesis to R. The second volume includes the transcript of the evidence and proceedings at trial. That volume is here designated by references in parenthesis to T.

admitted (R. 9, 16). The case was heard in March of 1963 in Phoenix, Arizona, before a visiting judge, the Honorable John C. Bowen. Judgment was given for the defendants on March 21, 1963 (R. 56). Plaintiff move for a new trial and, in the alternative, for a motion in accordance with its motion for directed verdict. Both motions were denied on March 25, 1963 (R. 56-57). On April 19, 1963, plaintiffs filed notice of appeal (R. 57); and all other appropriate steps for appeal have been duly followed. This Court has jurisdiction under 28 U.S.C. Sec. 1291.

STATEMENT OF FACTS

A. General Background.

This is a case in which a father and a mother were the named insureds on an insurance policy. They permitted Kenneth Judd, their 20-year-old son, who was then living with them, to use the family car from time to time under restrictions which are more fully developed below. The son was expressly forbidden to permit others to use the vehicle. Nonetheless, on the occasion which gives rise to the instant case, the son did permit a young lady, whom he had been dating and whom he subsequently married, Alice Willene Williamson (hereafter referred to as Willene), to use the car (T. 62). She intended to use it, not for any purpose of concern to the named insureds, but for the purely personal purpose of her own of getting an Arizona driver's license (T. 63). While she was using the car, an accident occurred. At the time of the accident, Willene was the only occupant of the Judd car.

The plaintiff insurance company brought suit for a declaratory judgment, asking for a construction of their contract of insurance with Ray A. Judd and Lucille B. Judd, as named insureds, and for a determination of rights and liabilities of plaintiff and defendants under the circumstances of the accident (R. 5). Plaintiff demanded a finding that the defendant, Alice Willene Williamson, is not covered by the insurance policy. The demand was based on the grounds that Willene was not using the automobile "with permission of the named insured". Such permission was required by the policy. The Court, determining that no express permission had been granted (T. 141), sent the case to the jury upon the sole issue of the existence or nonexistence of implied permission (T. 141, 146).

The plaintiff moved for a directed verdict at the close of the evidence on the grounds that there is no evidence of implied permission, that the "evidence is clear and uncontroverted," and that as a matter of law plaintiff was entitled to judgment (T. 130-131). Plaintiff's motion was denied (T. 131). Plaintiff renewed that motion, asking for judgment notwithstanding the verdict, at the same time that the plaintiff moved for a new trial. Both motions were denied together, on March 28, 1963 (R. 56-57).

B. Facts Bearing on Implied Permission.

The essential argument in this portion of the appeal is that there was simply no evidence at all to go to the jury on the question of implied permission. The facts, therefore, merge with the argument in exceptional degree in this case, and to avoid duplication, we shall reserve the bulk of the actual transcript quotation on the relevant points to the argument section of the brief. However, by way of summary, the essential facts are as follows:

(1) Kenneth had specific permission to use the car for driving to and from a vocational school held at Phoenix Union on the morning of the accident (T. 13-14).

(2) He always had to ask specific permission to use the car, except for a time when he had been attending Arizona State University and then had a "blanket" permission to drive to and from class (T. 19-20, 23).

(3) Mr. and Mrs. Judd had told Kenneth, and had frequently reminded him, that he was not to let anyone else use the car (T. 11, 116).

(4) Both he and Willene knew that Willene was not to drive the car at the time that Kenneth loaned it to her. They had agreed that his parents were not to know that she had driven the car (T. 65, 116).

(5) Willene had never before driven the Judds' automobile (T. 64).

(6) Until after the accident in question, neither Mr. Ray A. Judd nor Mrs. Lucille Judd, knew that Willene, or anyone but Kenneth, had ever driven their car (T. 12, 49).

(7) Willene's parents were tenants on the Judds' property, and Willene had been dating their son; but the Judds did not know Willene well at the time of the accident (T. 12, 50), and she was not then a member of their family.

C. Instruction on Implied Permission.

Each party offered proposed instructions on implied permission. The plaintiff's proposed instruction is its No. 3, and is as follows:

> "You are instructed that permission as used in these instructions may be of two kinds—express or implied.
>
> "Express permission is defined as permission that is affirmative in character and is clear and outspoken and is manifested by direct and appropriate language.
>
> "Implied permission is defined as permission which is inferred or deduced from the circumstances or may result from the course of conduct from the parties in which they mutual acquiesce, or it may arise from a

course of conduct pursued with knowledge of the facts for such time and in such manner as to signify clearly and convincingly an understanding consent which amounts in law to a grant of the privilege involved. *United Services Automobile Association v. Preferred Accident Insurance Company of New York*, 190 F.2d 404" (R. 22).

The Court rejected plaintiff's instruction No. 3 and gave defendants' requested instruction No. 4 with a modification not here relevant.*

In will be apparent that the fundamental difference between the two instructions is that the plaintiff's instruction provided that permission might, among other things, "arise from a course of conduct pursued with knowledge of the facts." Defendants' instruction took the knowledge element out, providing that implied permission could be based on "lack of objection."

Exception to the granting of the defendants' instruction and the denial of plaintiff's instruction as it related to this matter was presented by one statement and a cross-reference. Counsel excepted to the refusal of plaintiff's No. 3 on the ground that, "the proper test of implied permission as to burden of proof is that the implication must signify clearly and convincingly an understanding consent" (T. 152). The objection to the giving of defendant's instruction No. 4 was rested upon the grounds previously stated after the refusal to grant plaintiff's No. 3 (T. 153).

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*The modification dealt with the fact that the Court altered the instruction regarding express permission, telling the jury that they were not to find that express permission was granted in this case. The Court thus sent only the question of implied permission to the jury. The instruction then goes on to give, in substance and predominantly word for word, the instruction requested by the defendants Waddoups, et al, regarding the question of implied permission. Defendant Brenkman's request No. 3 was, in relevant parts, similar to plaintiff's.

STATUTES INVOLVED

Arizona Revised Statutes Section 28-1170.

> "'Motor Vehicle Liability Policy' defined. . . . B. The owner's policy of liability insurance must comply with the following requirements:
> . . . 2. It shall insure the person named therein and any other person as insured, using the motor vehicle or motor vehicles with the express or implied permission of the named insured, against loss from the liability imposed by law for damages arising out of the ownership, maintenance or use of the motor vehicle or motor vehicles within the United States or the Dominion of Canada, subject to limits exclusive of interests and costs, with respect to each motor vehicle as follows: . . ."

ASSIGNMENTS OF ERROR

1. The judgment should be reversed because the trial court erred in denying plaintiff's motion for directed verdict made at the end of the case (T. 130-131) and plaintiff's motion for judgment notwithstanding the verdict or for new trial. The latter motions were made on March 25, 1963, and denied on March 28, 1963 (R. 56-57). Denial of these motions is error, since there is insufficient evidence to justify a finding of implied permission.

2. The judgment should be reversed because the trial court gave erroneous and misleading instructions to the jury on the question of implied permission, refusing to give the correct instruction submitted as Plaintiff's Requested Instruction No. 3.

The objectionable part of the court's instruction is as follows:

> "If you find that the actions and conduct of Ray A. Judd and Lucille Judd are such as to signify their assent or lack of objection to the delegation of the use of the automobile in question to Alice Willene William-

son, now Alice Willene Judd, then you should find such use was with the implied permission of Ray A. Judd and Lucille Judd." (T. 141-142)

The giving of that instruction was duly objected to at T. 153, incorporating by reference plaintiff's earlier objection based on the ground that "the proper test of implied permission as to burden of proof is that the implication must signify clearly and convincingly an understanding consent." (T. 152).

Plaintiff's Requested Instruction No. 3 makes clear that knowledge, or circumstances signifying assent, are essential before lack of objection can amount to implied permission. The requested instruction is as follows:

> "You are instructed that permission as used in these instructions may be of two kinds—express or implied.
>
> "Express permission is defined as permission that is affirmative in character and is clear and outspoken and is manifested by direct and appropriate language.
>
> "Implied permission is defined as permission which is inferred or deduced from the circumstances or may result from a course of conduct of the parties in which they mutually acquiesce, or it may arise from a course of conduct pursued with knowledge of the facts for such time and in such manner as to signify clearly and convincingly an understanding consent which would amount to a grant of the privilege involved.
>
> *"United Services Automobile Ass'n v. Preferred Accident Ins. Co. of N. Y.,* 190 F.2d 404." R. 22.

Plaintiff duly objected to the court's refusal to give that instruction. The objection was made in the language set forth above. (T. 152)

SUMMARY OF ARGUMENT

The appeal rests upon two contentions:

1. In this case, the named insured permitted his son to use his car. The son, although under express instruction to do nothing of the sort, permitted a third person to use the car and an accident resulted. The issue is whether the insurance company is liable under the omnibus clause. The trial court concluded that there was no express permission, as there certainly was not. However, it allowed the issue of implied permission to go to the jury. We contend that this was error.

Appellant realizes that it is an uphill task to persuade a reviewing court that there is no evidence at all to go to a jury in any given case. But in this case, we think we make our way up the hill. Not only is there no evidence on the basis of which implied permission can be concluded, but there was an express prohibition against just such a thing as this, and the named insured sought, by carefully guarded conduct, to prevent promiscuous use of the car.

The applicable cases are discussed in the brief. They all come to the same thing: a finding of implied permission must be based on evidence, and is negated by a prohibition. Here there was no such evidence, and there was a prohibition.

2. As the Statement and Argument show, there was a serious dispute on the key instruction. The court below gave an instruction from which the jury could conclude that if the named insured did not object, implied permission could be concluded. There was in that instruction nothing to show that the named insured must have some knowledge of the use—a simple failure to object, whether he knew about it or not, was enough. Appellant on the other hand insisted that there must be some element of knowledge or at least some other circumstance signifying assent before implied permission could be assumed.

The Argument presents numerous cases supporting this latter point of view. We have been cited to none supporting the proposition that implied permission may be concluded from simple lack of objection without more.

ARGUMENT

I. There Was Insufficient Evidence to Sustain a Finding of Implied Permission.

In various ways, appellant challenged the sufficiency of the evidence to show implied permission. One or the other of its motions in this regard should have been granted.*

The ultimate question in this case is: An insurance policy is issued to parents, and the parents give their child limited rights to use the insured vehicle. Is the insurance company liable when the child, in the teeth of his parents' directions, permits the car to be used by someone else and an accident results from that use? The legal point of interpretation depends upon the "omnibus" clause of the insurance policy issued by State Farm Mutual to Mr. and Mrs. Ray A. Judd; there is no other claim of liability. The clause in question is as follows:

> "D. Definitions—Insuring Agreements I and II ... Insured—under coverages A, B, C and M, the unqualified word 'insured' includes ... (3) any other person while using the automobile, provided the actual use of the automobile is with the permission of the named insured. ..." (Plaintiff's Exhibit 1 admitted at T-10).

Under Arizona law, an identical question may arise as a matter of interpretation of the relevant Arizona statute,

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*The plaintiff moved for a directed verdict and that motion was denied (T. 130-131). Then plaintiff moved, in addition to its motion for a new trial, "for a judgment in accordance with plaintiff's motion for directed verdict." (R. 41). Both of those motions were also denied (R. 56-57). See also Statement of Facts, *supra*.

A.R.S. Sec. 28-1170, which provides that an insurance policy covers the person named and any other person who is using the motor vehicle with the express or implied permission of the named insured. *Jenkins v. Mayflower Insurance Exchange,* 93 Ariz. ......, 380 P.2d 145 (1963). The Arizona statute appears to be taken from the California statute, which is essentially identical in this regard, Cal. Vehicle Code, Sec. 16451, a matter to which we shall return below.

Suffice it to say for the moment that whether it is a matter of interpretation of the policy, or of the statute, the issue is whether there was implied permission from the named insureds for the use of the vehicle by Willene. This is the only question which was sent to the jury; it was settled in the judge's instructions that there was no express permission (T. 141).

A. THE MEANING OF "IMPLIED PERMISSION".

"Implied permission" has been defined in *Hinton v. Indemnity Insurance Company of N.A.,* 175 Va. 205, 8 S.E. 2d 279, 283 (1940). There, in an analogous situation and under a similar statute, the Court defined "implied permission" as follows:

> "On the other hand, the correlative word, 'implied' as defined in Webster's New International Dictionary, Second Ed., means 'inferential or tacitly conceded'. It [implied permission] involves an inference between the parties, in which there is mutual acquiescence or lack of objection *under circumstances signifying assent.*" [Emphasis supplied].

In showing "implied permission", the burden is on him who wishes to prove it. There must be some affirmative evidence of the "implied permission," *Hamm v. Camerota,* 48

Wash. 2d 34, 290 P.2d 713 (1955). The concept has been held to require actual knowledge on the part of the named insured. A general delegation of the right to use the vehicle was held not to cover use by others when the named insured had no knowledge of such use in *Duff v. Alliance Mutual Casualty Company*, 296 F.2d 506, (10th Cir. 1961); and in the latter case there was not (as there is here) an express prohibition upon the use of the car by anyone else.

There can never be implied permission when the use in question is in the teeth of express instructions by the named insured, where any possible implication of such permission is nullified by the express prohibition. For a collection of cases see 160 A.L.R. at 1206: "The original permittee who has given permission to use the automobile but has been expressly forbidden to delegate this authority can not do so, and the use of the car by the second permittee in violation of the named insured's express order is not within the protection of the policy." See also *Columbia Casualty Company v. Lyle*, 81 F.2d 281, (5th Cir. 1936); *Cocos v. American Automobile Insurance Company*, 302 Ill. App. 442, 24 N. E. 2d 75 (1939); *Clemons v. Metropolitan Casualty Insurance Company*, 18 S.2d 228 (La. App. 1944); *Ohio Casualty Insurance Company v. Plummer*, 13 F. Supp. 169 (D.C.S.C. Tex. 1935).

Further, *Dodson v. Sisco*, 134 F. Supp. 313 (U.S.D.C. W.D. Ark. 1955), a case exceedingly similar to the one at bar, and arising under a very similar statute, involves an express prohibition upon loan of a car. The prohibition was held sufficient to negate the existence of implied permission.

There can not be "implied permission" without the "*knowledge* of the named insureds, regardless of what permission was given by other persons," *Card v. Commercial Casualty Company*, 20 Tenn. App. 132, 95 S.W. 2d 1281, 1285 (1936).

[Emphasis supplied]. The term "permission" contemplates something other than mere sufferance or toleration:

> "It may arise and be implied from a course of conduct pursued *with knowledge of the facts*, for such time and in such manner as to signify and be compatible only with an understanding consent amounting to a grant of the privileges involved." *Tomasetti v. Maryland Casualty Co.*, 117 Conn. 505, 169 Atl. 54, 55 (1933). [Emphasis supplied]

The best and most completely relevant discussion of this problem in an almost identical fact situation is *Norris v. Pacific Indemnity Company,* 39 Cal. App. 2d 420, 247 P.2d 1 (1952). In *Norris,* a father had permitted his minor son to use his automobile but with an express prohibition on letting anyone else use it. The son nonetheless permitted a friend to use the car for personal errands and an accident resulted in the course of that use. The issue, as here, was whether the insurance company was liable under the omnibus clause of the policy or under the statute, the clause in the statute being essentially the same as in the instant case.

The California Supreme Court, noting that "the use by a third person is not protected by an omnibus clause in an insurance policy where the owner has expressly forbidden it," holds that "there is no decision in this state which construes or applies similar language in insurance policies in accordance with" the claimant's contention. The Court noted, with solid citations, that if there were a "course of conduct indicating assent by the assured to use by others," then an implication could be drawn; but that where there were no facts showing express or implied permission, the driver is not covered. One Justice dissented, a matter to which we shall refer below.

B. THE PORTER DECISION DOES NOT ALTER THE FOREGOING PRINCIPLES.

This Court has touched upon the present subject in *State Farm Mutual Automobile Insurance Company v. Porter,* 186 F.2d 834, 839, (9th Cir. 1950), a decision which at the page cited does contain a dictum which requires recognition. On its facts, the named insured was a resident of Nebraska. His wife had left him, taken his car, and had proceeded to California, this departure being without the husband's consent. While in California, the wife permitted a third person to use the car, and an accident resulted in the course of that use. The issue was whether the insurance company was liable.

The whole weight of the *Porter* case goes to the fact that implied permission had been repeatedly admitted by the defense. This is the entire thrust of the whole discussion of the case, and the complete basis for decision. However, in the course of reaching its result, this Court referred to a statement by the adjuster that he was satisfied that the wife had the permission of the named insured to bring the automobile to California and that the actual driver in turn had her permission to use the car. This Court then said, "If such were the facts they would make out a case for permissive use by [driver], for it appears to be the rule that if the owner's permittee has entrusted the automobile temporarily to another, the latter's use is deemed to be within the owner's permission. *Haggard v. Frick,* 6 Cal. App. 2d 392, 44 P.2d 447, 448."

If the *Porter* dictum means simply that whenever a named insured permits a second person, and the second permits a third person to drive his car, the insurance company is liable regardless of all other circumstances, then the dictum is too broad. We need not pause to consider whether *Haggard v. Frick,* a decision of the Appellate Division in California, goes to any such length, because it is previous to the *Norris* case, set forth fully above, which was a decision of the Supreme Court of California. *Haggard* is in fact totally irrelevant to the instant subject, since it dealt with a wholly different section of the California statute.

Haggard v. Frick came up under a statute which was then Cal. Civ. Code, Sec. 1714¼, later carried over into Cal. Vehicle Code, (1935) Sec. 402(a), and now carried forward as Cal. Vehicle Code, Sec. 17150. That California statute involves the liability of an *owner;* while the liability of an *insurer* is covered by Cal. Vehicle Code, Sec. 16451, which is carried over from Cal. Vehicle Code (1935), Sec. 415. While the language of owners' liability and insurance companies' liability is substantialy the same, it is clear that California reaches separable results in those two situations, as the *Norris* case shows. Note also that *Haggard v. Frick* is cited only in the dissenting opinion in *Norris.*

We do not mean to suggest that *Haggard v. Frick, supra,* is in anywise minimized or diminished in its weight by *Norris.* It simply deals with a different problem. This is best illustrated by the subsequent use in the California Court of both cases. See, for example, *Traders & General Ins. Co. v. Pacific Employers Ins. Co.,* 276 P.2d 628, 631 (1954), identical in this respect on rehearing, 120 C.A. 2d 158, 278 P.2d 493, 497 (1955), in which *Norris* is interpreted as a case in which, where "the owner's son, contrary to express instructions, lent the car to the driver . . . the court determined [this] to be operation without consent." Liability in *Traders* was traced through Sec. 402 *supra,* which concerns owners' liability, not through Sec. 415 *supra,* which deals with insurer's liability. In *Peterson v. Grieger, Inc.,* 17 Cal. Rptr. 828, 367 P.2d 420, 426-427 (1961), a case involving owners' liability in the absence of express prohibition, *Haggard v. Frick* is cited as authority while *Norris* is given a *cf.*

We conclude that every jurisdiction which has dealt with the permittee and sub-permittee problem and which has considered *Porter* and *Norris* has found no liability under an omnibus clause where the use by the sub-permittee was under prohibition by the named insured.

We conclude that this Court, in the quoted dictum in *Porter,* did not mean to reject all of the other elements which are requisite to make up implied permission, both under the omnibus clause and under the California statute. It focused in that sentence on the two matters which were all that were necessary there, because of the exceedingly broad nature of the admissions in that case; for the admissions did totally yield the issue. But certainly this Court did not mean in that passage to reject the dozens upon dozens of decisions which exist in this field without even mentioning them. The *Norris* decision by the California Supreme Court, coming two years after *Porter,* and interpreting virtually the same clauses and statutes which are involved in this Arizona case, must be regarded as controlling in the instant case.*

C. APPLICATION OF THE FOREGOING PRINCIPLES TO THE FACTS IN THE INSTANT CASE.

1. The parents had given the son permission to use the car for limited purposes only. There were general rules which governed Kenneth's use of the car at any time that he took it. He had to get permission to use the car subject to a requirement to return home at a time agreed upon.

**Porter* has been interpreted in this manner. Thus in *Carlton v. State Farm Ins. Co.,* 309 P.2d 286, 288 (Okla. 1957), the case is interpreted as holding coverage under an omnibus clause only where the insured had not prohibited the permittee from allowing anyone else to use the vehicle. Here there was such a prohibition.

He was to avoid excessive use of the car. He was to obey the laws. He was to avoid taking the car away from the Salt River area (T. 85). On the morning of the accident, Kenneth had specific permission to take the car to go to school and return (T. 45-46).

At a time preceding the accident in question, Mr. Ray A. Judd had taken the keys to the car away from Kenneth, and gave him the use of the car

> "only on times when he couldn't get other transportation or such as going to school. During the week he drove with some of his fellow workers, but they weren't all living in the same neighborhood and couldn't take him to school, so I allowed him to use it Saturday morning." (T. 44).

Thus, at the time in question, Mr. Judd was being "very tight with the use of the car." (Tr. 44-45).

2. The son had been expressly forbidden to permit other persons to use the car.

Quoting from the examination of Mr. Ray A. Judd:

> "Q. Now, Mr. Judd, with respect to the question of allowing third parties to drive your car, did you have any rules or regulations laid down in that regard as far as Kenneth's use of the car was concerned?
>
> "A. I was very emphatic about telling him—about telling him not to let anyone use the car.
>
> "Q. On more than one occasion?
>
> "A. Very frequently I would remind him of that. Not every occasion.
>
> "Q. Specifically, what did you remind him of?
>
> "A. Tell him to be sure and not let anybody use the car." (T. 11)

From the testimony of Mrs. Judd, upon examination by Mr. Grainger:

"Q. Now, Mrs. Judd, you have heard your husband's testimony with respect to Ken's usage of the car. Were you present on any occasion when your husband told Kenneth that he could not loan the car to any other person?

"A. Yes, sir.

"Q. And were you present on more than one occasion?

"A. Yes." (T. 48-49)

From the testimony of Kenneth Judd, on cross-examination by Mr. Grainger:

"Q. It is true, is it not, that he continually told you time and again that no one was to use that family car except you and himself?

"A. Yes.

"Q. It's true, is it not, Ken, that on no occasion prior to this accident had Willene ever used the family car?

"A. Yes, it is true." (T. 116)

3. There was no waiver by acquiescence in disobedience. The Judds were by no means the sort of parents who gave an instruction and then ignored possible violations of it. In previous instances in which the son had failed to stay within the limitations of use prescribed, he had been disciplined for it. Ken was reprimanded on the occasions when he violated his instructions; and the car was taken away from him for periods of time. (T. 23)

Quoting from the testimony of Kenneth Judd upon cross-examination by Mr. Grainger:

"Q. Then you understood, did you not, that anytime you violated these orders and your father caught you you were going to be reprimanded and cautioned?

"A. Yes.

"Q. It happened on several occasions?

"A. Yes.

"Q. Everytime you violated one of your father's rules or regulations you were punished or reprimanded, were you not?

"A. Yes.

"Q. At least insofar as those that he found out about?

"A. Yes." (T. 116-117)

4. The named insureds had no knowledge whatsoever of the use of the car by third persons, much less this one.

From the direct examination of Mr. Judd by Mr. Grainger:

> "Q. To your knowledge, up to February 28, 1959, Mr. Judd, had Kenneth ever permitted any other person to drive your automobile?
>
> "A. I didn't know of any time at all, no." (T. 12)

From the direct examination of Mrs. Judd, by Mr. Grainger:

> "Q. Mrs. Judd, to your knowledge did Kenneth ever allow any third party to use your car?
>
> "A. Not to my knowledge, no." (T. 49)

From the testimony of Kenneth Judd upon cross-examination by Mr. Grainger:

> "Q. And, Ken, insofar as your own knowledge is concerned, it is true, is it not, that your father never knew that on any occasion you had loaned this car to anyone else until this occasion when Willene was involved in this accident?
>
> "A. Yes." (T. 117)

5. The lack of implied permission is confirmed by Willene who knew that her use was improper.

Excerpt of the testimony of Alice Willene Williamson, upon cross-examination by Mr. Grainger:

"Q. Willene, had you ever on any occasion before February 28, 1959, driven Mr. Judd's 1957 Chevrolet?

"A. No.

"Q. Had you on any occasion ever asked him for the use of that car?

"A. No.

"Q. Now, with respect to Ken giving you permission to use the car that day, did you have any understanding with him with respect as to whether or not his parents knew about it?

"A. Yes.

"Q. And isn't it a fact, Willene, that Ken told you that his parents were not to know about it because they did not—would not give permission?"

(Mr. Quisenberry here objected and withdrew his objection.)

"Q. (By Mr. Grainger) Let me rephrase the question. Willene, isn't it true that Ken told you that you were not to tell his parents that you were going to drive the car on that Saturday morning?

"A. Yes.

"Q. And the reason for that was that his parents would not allow anyone else to drive the car?

"A. Yes.

"Q. You understood that at the time you took the car did you not?

"A. Yes.

"Q. You knew you were doing something that the Judds would not approve of?

"A. Yes." (T. 64, 65)

D. CONCLUSION.

We appreciate the burden on anyone who comes to this Court asking it to reverse a decision because there is no evidence to support the result reached. It is a heavy burden, but it is not insuperable. When there is no evidence at all, a Federal Appellate Court will, of course, reverse. *United States v. McAlister,* 88 F.2d 379 (9th Cir. 1937). *New York Life Insurance Company v. Doerksen,* 75 F.2d 96 (10th Cir. 1935).

We put our challenge to the appellee: Where in this transcript is there any evidence at all of implied permission? Is there any evidence at all that use by third persons was not expressly prohibited? Surely, when there is solid testimony, throughly confirmed by conduct, that the use was restricted, there must be something substantial to prove to the contrary.

II. Mere "Lack of Objection" Does Not Create Implied Permission; Knowledge, or Other Circumstances Implying Consent Are Required.

The trial Court should not have given defendant's Requested Instruction No. 4, and should have given plaintiff's Requested Instruction No. 3. As shown in the statement of facts, the sum and substance of the difference in these instructions is that plaintiff defined "implied permission" as one which could "arise from a course of conduct pursued with knowledge of the facts," while the defendant defined "implied permission" as being, among other things, "lack of objection," without any requirement of knowledge.*

*It should be noted that there were three sets of requested instructions given to the judge. The instruction that was granted and the instruction requested by the plaintiff have been set forth and discussed. The third requested instruction on the question of implied permission, that of John Brenkman, reads in relevant parts as follows: "It is not necessary that you find the directly granted permission to her, as permission may be *implied* from circumstances, it may be implied from a course of conduct of the parties indicating consent or acquiescence; or permission may be implied from lack of objection under circumstances signifying assent." (R. 36). The importance of this requested instruction is that it, like the plaintiff's requested instruction, makes clear that "circumstances signifying assent" are necessary before lack of objection can amount to implied permission.

There can not be a grant of implied permission without some knowledge or other indication of assent; *Tomasetti v. Maryland Casualty Co., supra; Hamm v. Camerota, supra.* The only substitute for knowledge is some other circumstance which signifies assent. That is to say, we are not contending that knowledge is always an absolute prerequisite. Doubtless, if a father were to give his car to his son, without restriction, and some emergency were to arise whereby the son loaned the car to someone else, the father might well be held to have impliedly permitted the use of the car by the third person.

The point is that absent some special circumstances, there must be either knowledge, or as expressly stated in *Hinton v. Indemnity Insurance Company of N. A.*, 175 Va. 205, 8 S.E. 2d 279, 283 (1940): "lack of objection *under circumstances signifying assent.*" [Emphasis supplied].

What is wrong with the instruction in the instance case is that it put the "lack of objection" element of the *Hinton* case to the jury without carrying with it the requirement of "circumstances signifying assent." This is not a matter of a mere turn of a phrase; it totally changes the nature of the case.

The Supreme Court of Washington reversed a finding of implied permission on very similar facts saying, among other things:

> "There was no finding that the latter [the owner] knew that possession of this car was being given to Sisson [the driver], or that the son had ever loaned it to him or anyone else with the father's knowledge." *Hamm v. Camerota,* 48 Wash. 2d 34, 290 P.2d 713, 717 (1955). See also *Holthe v. Iskowitz,* 31 Wash. 2d, 533, 197 P.2d 999, (1948).

The instruction to the jury on implied permission thus eliminated an essential element in the face of a request by the plaintiff which included that element, a request by one of the two defendants which included that element, and an objection made by Mr. Grainger which explicitly informed the court that implied permission, to be shown by a course of conduct, "must signify clearly and convincingly an understanding consent." (T. 152).

The jury might have been justified in finding that the Judds had made no special objection to Willene's use of the car.

Quoting from the direct examination of Mr. Ray A. Judd by Mr. Grainger:

> "Q. Had you specifically told Kenneth not to let Willene use the car?
>
> "A. No. I didn't mention her name. I just told him not to let anybody use it." (T. 14)

Following the Court's instruction, this "lack of objection," even though it occurred in ignorance, could constitute implied permission.

As a matter of law, there is no implied permission in this case. But the Court's charge on this question, the only one submitted to the jury upon special verdict, gave the question of implied permission to the jury, and gave them that questoin to be answered in terms of erroneous and highly misleading instruction.

CONCLUSION

It is respectfully submitted that the judgment of the Court below should be reversed.

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By John P. Frank

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Attorneys for Appellant

August, 1963

I certify, that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

John P. Frank

No. 18783

In the

United States Court of Appeals

for the Ninth Circuit

STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY, a corporation,
Appellant,

vs.

ALICE WILLENE WILLIAMSON, a minor; JOHN BRENKMAN, a minor; CARL E. BRENKMAN; C. W. WADDOUPS; CLARA R. WADDOUPS; and SARA R. MURRY, dba RUDOLPH CHEVROLET,
Appellees.

Brief of Appellees

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SUBJECT INDEX

TABLE OF AUTHORITIES CITED

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Brief of Appellees

JURISDICTION

There appears to be no question regarding the Court's jurisdiction in this case. There is diversity of citizenship and the controversy involves more than $10,000.00 (R. 1 and R. 9 and 16)*. 28 U.S.C. Sec. 1332. The action was

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*For the sake of clarity and convenience appellees will make reference to the transcript of record of this case in the same manner as has appellant in its brief. That is, Volume 1, which comprises the documentary record, will be designated by reference in parenthesis to R and the appropriate page number. Volume 2, which comprises the transcript of the evidence and proceedings at trial, will be designated by reference in parenthesis to T and the appropriate page number.

brought by appellant pursuant to 28 U.S.C. Sec. 2201 seeking a declaratory judgment regarding its liabilities and obligations under a policy of automobile liability insurance (R. 5). Appellant alleged in its Complaint that the case involves an actual controversy (R. 1) and appellees admitted the truth of this allegation (R. 9 and 16).

The cause was tried before the Honorable John C. Bowen on the 19th and 20th days of March, 1963, in Phoenix, Arizona and at the conclusion of the trial, judgment was given for defendants in accordance with the jury's special verdict on the 21st day of March, 1963 (R. 37-40). On the 28th day of March, the Court entertained appellant's Motion For a New Trial or in the Alternative, Motion For Judgment in Accordance With Motion for Directed Verdict, and on the same day denied both motions (R. 56-57). Appeal from the Court's judgment was commenced on the 19th day of April, 1963, when appellant filed its Notice of Appeal (R. 57). Commencement of the appeal and all further steps taken by appellant in prosecuting it have been under the authority of Rules 73 through 76 of the Federal Rules of Civil Procedure. This Court has jurisdiction under authority of 28 U.S.C. Sec. 1291.

STATEMENT OF THE CASE

A. Nature of the Action.

Appellant issued its policy of automobile liability insurance to Ray A. Judd and Lucille B. Judd, hereinafter for convenience called "Judds", which policy contained the following clause:

> "Under Coverages A, (personal injury liability) and B (property damage liability), the unqualified word "insured" includes (1) the named insured, and also includes (2) his relatives, (3) any other person while

using the automobile, provided the actual use of the automobile is with the permission of the named insured."

Said policy was in effect on the 28th day of February, 1959, when a 1957 Chevrolet owned by the Judds and insured under said policy was involved in a collision which resulted in personal injuries to the appellee John Brenkman. The foregoing facts are established by the pleadings (R. 3 and R. 9 and 16).

At the time of the accident the automobile was being driven by Alice Willene Williamson, hereinafter for convenience called "Willene" (T. 62). She was operating the automobile with the express permission of Kenneth Judd, hereinafter for convenience called "Kenneth" (T. 62, 77 and 104). Kenneth is the son of the named insureds and at that time lived with them as a member of their household (T. 82).

The Judds and their son, Kenneth, each testified that there had been a set of rules suggested regarding Kenneth's use of the family automobile (T. 20-21, 56-57 and 84-85). However, each also testified that as a matter of practice he disregarded these rules (T. 21-22, 57-58 and 89).

It was asserted that one of these rules was that Kenneth was not to delegate use of the automobile to others (T. 11, 48-49 and 85). Based on this assertion, it is contended by appellant that Willene's operation of the automobile on the day in question is not within the above quoted clause of appellant's insurance policy because it was not permissive.

However, there are other facts which shed light on the circumstances under which Willene was operating the automobile when the accident happened. First, it is important to note that she had a dual purpose; ie., she indended to procure an Arizona driver's license for herself and to purchase gasoline for the Judds' automobile and then to pick Kenneth up and take him home, all under the instructions and at the request of Kenneth. She was on her way back to pick Kenneth up when the accident happened (T. 104). Her operation of the automobile at the time of the accident, therefore, was of benefit to, and in the interests of, Kenneth and his parents.

After the accident happened, Willene claimed coverage under the Judds' contract of insurance with appellant in making her accident report to the State of Arizona. Appellant received actual notice of this fact, yet failed to notify the appropriate authorities of the State of Arizona that it denied the coverage which Willene claimed. The foregoing facts are a matter of stipulation between counsel for appellant and appellees (T. 132-133).

Appellees feel it is important to notice that there was apparently a close relationship between Willene and Kenneth at the time of the accident. Willene lived with her family in a separate dwelling which was rented from the Judds, but which was very near the Judds' dwelling and in fact was on the same lot (T. 16, 49, 61½ and 82). They had been dating and within a few weeks after the day when the accident happened, they were married (T. 18, 49, 61½ and 82).

B. Issues Presented by the Pleadings.

In its Complaint appellant alleged that the Judds' instructions and orders were violated by Kenneth when he permitted Willene to use his parents' automobile. It is also alleged that Willene has been named as a defendant in a suit for personal injuries brought by John Brenkman through his guardian ad litem in the Superior Court of the State of Arizona in and for the County of Maricopa. Appellant sought declaratory judgment that it was not obligated to defend Willene in the personal injury action or to pay any judgment which might be rendered against her in that action (R. 1-5).

In their Amended Answers appellees denied that Willene's operation of the Judds' automobile was not permissive. Appellees further alleged that appellant had failed to deny coverage to the Financial Responsibility Section of the Arizona Highway Department in accordance with the Arizona statutes. They sought judgment that, pursuant to its policy, appellant is required to defend Willene in the personal injury action and to pay any judgment which may be obtained against her to the extent of the limits of said policy (R. 9-11 and 16-18).

The pleadings, therefore, raise two issues:

> First: Was Willene's use permissive so as to be within the omnibus clause of appellant's policy of automobile liability insurance?
>
> Second: Are appellant's obligations under its policy affected by a failure to deny coverage in accordance with the financial responsibility statutes of the State of Arizona?

C. Evidence Presented to the Jury.

At the trial of this cause, the jury heard the testimony of the Judds, their son, Kenneth, and of Willene (T. 2). The insurance policy which appellant issued to the Judds and which appellees claim affords coverage to Willene was admitted as plaintiff's Exhibit No. 1 (T. 10). The jury were informed of the stipulation entered into by counsel for the parties regarding the claim of coverage by Willene to the Financial Responsibility Section of the Arizona Highway Department and appellant's failure to deny coverage (T. 135-136). In addition, the jury received testimony from Carl

Brenkman, the father of the injured boy, who was named as a defendant in this action but had agreed not to contest it and to be bound by whatever judgment was entered (R. 8). Finally, defendants' Exhibit A which is an agreement or purported agreement between appellant and Willene was admitted (T. 126).

Plaintiff's Exhibit No. 1 establishes the fact of insurance and the language of the policy without dispute. The testimony of Kenneth and Willene and of the Judds deals largely with the conduct of the parties at the time of and prior to the day in question and the circumstances surrounding Willene's operation of the Judds' automobile at the time of the accident. The facts agreed upon by stipulation, the testimony of Carl Brenkman, defendants' Exhibit A, and portions of the testimony of Willene, Kenneth and Ray A. Judd, relate to appellant's actions following the accident.

D. Verdict and Judgment.

The case was submitted to the jury on a form of special verdict which required only that they determine whether or not Willene was operating the automobile at the time of the accident with the implied permission of the Judds (T. 146-148). The jury having answered this special verdict affirmatively (T. 159-160 and R. 37), appellees moved the Court for entry of judgment and presented a form of written judgment to the Court to be settled and approved (T. 164). After hearing certain objections by appellant regarding the language of this written judgment as it applied to plaintiff's obligations to Willene, who had failed to appear in the action in person or through an attorney (T. 164-167), the Court entered judgment in accordance with said written form (R. 38-40).

E. Issues Raised on Appeal.

In its brief appellant raises only two issues. These are:

First: Whether or not the evidence can support the jury's finding.

Second: Whether or not the instruction which the Court gave regarding the definition of implied permission is proper.

On the first issue, appellant's argument is basically that since there is evidence that the Judds expressly forbade Kenneth to allow others to use the family automobile, the jury was not justified in finding that they permitted such use by implication. With regard to the second issue, appellant's argument seems to be that the jury should have been given specific notice that one must have knowledge of an event if he is to permit it to occur.

Appellees' position with regard to these arguments is expressed below in a separate portion of this brief.

ARGUMENT

A. Summary.*

Appellees do not quarrel with the proposition that permissive use cannot be implied under circumstances where there has been a genuine, meaningful and intended prohibition against such use. We do contend, however, that there was ample evidence presented to the jury to show that the instructions which were assertedly given by the Judds regarding delegation of the use of their automobile by

*No references to the record or citations to authority are set forth in the Summary of appellees' argument. Such references and citations are given following the Summary in the sections of this brief which contain an expanded discussion of the various points relied on by appellees.

Kenneth were not genuine, not meaningful and that the Judds, therefore, did not actually intend that they be followed. Kenneth was given a set of rules for the use of the family automobile prior to the time he became licensed to drive. During the several years he had been using the family automobile, he had shown a disregard for these rules and had repeatedly and continually broken each and all of them. Even so, his parents continued to allow him the use of their automobile and had gone so far as to provide him with his own set of keys and give him blanket authority to use it to go to school. The evidence is clear that the Judds knew of their son's pattern of disbehavior and we contend that the jury was certainly entitled to believe that they realized on the day in question that he would not be bound by whatever instructions they might have given him in the past. The jury apparently felt that Kenneth's violations bore the stamp of approval of his parents, or at least that they did not object to them so seriously as to prevent a recurrence by denying him use of the automobile.

Appellant has ignored the significance and effect of its failure to return the FR-1-A Form to the Financial Responsibility Section of the Arizona Highway Department. This form was received by appellant some time after the accident, showing that Willene claimed coverage under the Judds' policy. Appellant failed to inform Financial Responsibility Section that it denied that Willene was covered under the Judds' policy and we contend that the jury was justified in believing that when it neglected to deny coverage, appellant was acting on the true state of the facts. It must be remembered that the jury was not required to believe all or any of the direct testimony of the witnesses. Their credibility and the weight to be given their testimony are matters for the jury to consider and decide. There were indications that the veracity of the witnesses might be questioned. Mr. Judd disclosed that he had aligned himself with plaintiff in the case. Mrs. Judd gave testimony on what we believe to be an important point diametrically opposed to her sworn testimony given earlier. Kenneth established himself, and his parents helped him, as one who had established a pattern of lying about his use of the family automobile. Opposed to the direct testimony of these witnesses to the effect that Kenneth had only a limited authority to use the automobile, is the circumstancial evidence of appellant's failure to deny coverage to the State. The evidence shows that it was informed of the accident and contacted the Judds and Willene shortly after it happened, yet still failed to inform the State of the position which it now takes and which it asked the jury to accept.

Appellant complains that the instruction on implied permission might lead the jury to give a verdict against it even though the events which took place were in no way caused by them and took place entirely without their knowledge. It contends there can't be permissive use without knowledge of the use. This argument seems to require an inquiry into the meaning of the verb "permit". We contend that to give permission necessarily implies the power and ability to prevent the act in question, and the ability to prevent implies knowledge of the act. No one would seriously urge that one "permits" an event to happen which is in no way caused by him and takes place entirely without his knowledge. The meaning and concept of permission is relatively simple and commonplace and must be considered to have been within the grasp of the jury. That meaning and concept includes the element of knowledge, and we urge that the jury cannot have been misled even though the knowledge requirement was not expressly pointed out to them. If we cannot communicate our thoughts to a jury using such simple terms as "permission" without further embellishment, then the whole jury system stands in danger. In any event, appellant failed to make known its exceptions and objections to the trial court and is now for the first time on this appeal presenting its complaint.

Appellees contend that even if the validity of appellant's arguments were conceded, there should be no reversal. There is no conflict but that the Judds gave express permission to Kenneth to use their automobile and that he in turn gave express permission to Willene. Under such a set of facts, we urge that Willene should be afforded coverage under appellant's omnibus clause as a matter of law. This contention is based on public policy and the modern trend of the law which seeks to provide protection to the injured party by affording coverage under the omnibus clause to persons who use an insured's automobile lawfully. Furthermore, it can be argued that Willene's use was permissive in that the chain of events which culminated in the accident was initiated by the Judds' grant of permission to their son. Certainly it was within their power and authority to have prevented the accident by withholding the automobile from Kenneth.

In any event, there is evidence that Willene's operation of the automobile was to serve not only her own purposes, but those of Kenneth and his parents. We urge that under such a set of circumstances, Willene was covered by appellant's policy even though she may have been using the automobile against the Judds' wishes. We believe the better reasoned cases hold that where a permittee provides an automobile to a third person to be used to serve his purposes or those of the owner, that third person is covered under the standard automobile liability policy omnibus clause even though the owner may have expressly instructed the permittee not to delegate use of the automobile.

Finally, we contend that by failing to deny coverage to Willene in accordance with Arizona's financial responsibility laws, appellant became obligated to extend the coverage of its policy to her regardless of any policy defenses it may have had.

B. Re Evidence on Implied Permission.

(1) Direct Evidence.

The foundation of appellant's first assignment of error is that a jury simply cannot find that an act has been done with the implied permission of one who has attempted to prevent its doing. It apparently is assumed in applying this premise to the facts of this case that the jury could not but believe that the Judds actually made a genuine attempt to prevent their automobile from being operated by Willene. Appellees contend this assumption is faulty.

In the portion of its brief dealing with the meaning of "implied permission" (pages 10 through 20), appellant has cited numerous cases dealing with the general subject of permissive use of motor vehicles under automobile liability insurance policies. Appellees can accept the definition of implied permission contained in *Hinton v. Indemnity Insurance Co. of North America,* 175 Va. 205, 8 SE 2d, 279 (1940) and which appellant urges upon the Court at page 10 of its brief. In a fact situation which appellant describes as "analagous" (and note that under this "analagous situation" the court found that an implied permission did in fact exist) the court defined the concept it was dealing with in the language which is set forth in appellant's brief at page 10, but finished its definition with the following all important sentence which is not included by appellant:

> "An implied permission is not, therefore, confined alone to affirmative action."

It may be true, as appellant contends, that there must be some affirmative evidence of an implied permission, but it certainly is not true, even according to the authorities it relies on, that there must be evidence of any affirmative action. In *Brower v. Employers' Liability Assur. Co.*, 318 Pa. 440, 177 Atl. 826 (1935) the court adopted this view in the following language:

> "The word 'permission' has a negative rather than an affirmative implication; that is, a permitted act may be one not specifically prohibited as contrasted to an act affirmatively and specifically authorized."

Hamm v. Camerota, 48 Wash. 2d 34, 290 P2d, 713 (1955) cited by appellant at page 10 of its brief actually stands for the proposition that in order that one be considered as insured under an omnibus clause, it must be shown that his use of the automobile was with the permission, express or implied, of the person designated in the policy as the named insured. The case turned on whether or not the grant of permission must come from the owner of the vehicle or the named insured where they are different persons. It was *not* contended that the named insured had given permission, express *or* implied, to the operator of the automobile and hence the case is of little value in determining the issues presented on this appeal.

Shedding further light on the meaning of the term "implied permission", we commend to the Court the definition in *Stoll v. Hawkeye Cas. Co. of Des Moines, Ia.*, 193 F.2d 255 (8th Cir. 1952) as follows:

> "Implied permission is actual permission circumstantially proved."

It is our contention that there was evidence presented to the jury of circumstances which establish an implied permission. True enough, there was also evidence that there was an express prohibition against the act in question and we agree that if the jury had believed this evidence outweighed the evidence of circumstances showing implied permission, they should have found that such implied permission did not in fact exist. But we urge, as appellant either fails or refuses to recognize, that the jury were *not* required to accept at face value the evidence of an express prohibition and that their special verdict demonstrates that as a matter of fact they rejected this evidence as less persuasive than that which tends to show that an implied permission existed.

As appellant points out throughout its brief, there was considerable testimony with regard to rules which had been expressed by the Judds governing their son's use of the family automobile. But this testimony showed not only that such rules or instructions had been discussed, it showed further that they had been ignored by Kenneth in practice. Illustrative are the following excerpts from Kenneth's testimony (Counsel's objections and the Court's rulings thereon omitted):

> "Q. About how many times during the period that you used this car before the accident happened, or any family car, did some sort of violation occur?
>
> A. Several times." (T. 88, lines 2 through 7)
>
> "Q. Can you tell us aside from the Mexico adventure about which we have already heard testimony about what was involved?
>
> A. When I kept the car out late or they had found out that I had gone somewhere that I hadn't told them I was going." (T. 88, lines 10 through 15)

"Q. (By Mr. Fox) Did you ever violate the instruction which had been given to you regarding purchase of gas and oil?

A. Yes." (T. 88, lines 20 through 24)

"Q. (By Mr. Fox) I will ask then again, Ken, if you can remember any instances, and describe them to the Court and the jury when you violated these instructions, aside from those you previously mentioned.

A. Oh, I imagine I violated just about all of them at sometime or other. I don't know when. I know before the accident they must have been. I imagine I violated all of them at some time or other. I don't remember whether exactly if my folks found out about them.

Q. Did your folks find out about all of your violations?

A. No.

Q. Did they find out about some of your violations?

A. Yes.

Q. Did your father interrogate you with regard to your use of the car?

A. Yes.

Q. Did you ever disclose to him at such interrogation any of your violations?

A. Yes, I imagine.

Q. Did he ever discover some violations on his own?

A. Yes.

Q. Can you tell us about that?

A. Well, he found out about the time that I went to Mexico from a friend, and another I believe he found a receipt of a citation that I had paid.

Q. By that you mean a traffic ticket?

A. Yes" (T. 89, lines 8 through T. 90, line 9)

"Q. (By Mr. Quisenberry) Approximately how many traffic citations have you received prior to February 29, 1959?

A. I don't remember. Five or so.

Q. And approximately prior to that date how many accidents were you involved in?

A. Two or three. Maybe four.

Q. Now, in each of these occasions had you got specific permission to use the car?

A. Yes. Oh, yes.

Q. Was your father aware of all of the accidents?

A. Yes.

Q. Was he aware of all the citations?

A. No." (T. 113, line 16, through T. 114, line 3)

The Judds admitted that they were aware of Kenneth's violations of their rules. From the testimony of Ray A. Judd (Counsel' objections and the Court's rulings thereon omitted):

"Q. (By Mr. Quisenberry) Now, Mr. Judd, did Kenneth generally obey these regulations?

A. He generally obeyed them, yes.

Q. Were there any instances when he did not obey them?

A. Yes.

Q. (By Mr. Quisenberry) Would you state to the jury what these instances were?

A. He had speeding tickets.

Q. (By Mr. Quisenberry) Approximately how many?

A. At that time I knew of about two, possibly three.

Q. And over what period of time?

A. Well, from the time he was driving up until the time of the accident. He had kept the car out later, and he took the car out of the valley. He wasn't supposed to take the car out of the valley without specific permission, and he did that.

Q. Where did he take the car?

A. He went to Mexico one day.

Q. How long did he stay?

A. He stayed overnight." (T. 21, line 12, through T. 22, line 15)

Lucille B. Judd testified as follows (Counsels' objections and the Court's rulings thereon omitted):

"Q. Aside from the time he went to Mexico and the occasion when he loaned the car to Willene when the accident happened, were there any occasions when he disregarded the instructions that you know of?

A. Yes. There was a few citations that I learned that he had tickets for speeding.

Q. You knew about that then before the accident?

A. Yes, sir." (T. 57, line 18, through T. 58, line 9)

In spite of Kenneth's disregard for their rules, the Judds continued to allow him to use the automobile and even went so far as to allow him blanket permission to use it to go to school and to allow him to have in his possession a set of keys for it. From Kenneth's testimony:

"Q. Was it necessary that you ask specifically for the use of the car each time you wanted to use it?

A. Well, like my father said, I had blanket permission to go to school. Other than that, yes.

Q. To go to ASU?

A. Yes." (T. 91, line 7 through 12)

"Q. (By Mr. Quisenberry) Did you have keys to the car?

A. Yes, I did.

The Court: For how long a period of time did you have in your possession from day to day the keys to the car?

The Witness: July, '58.

The Court: One month or more?

The Witness: From the time of the accident back it would have been eight months." (T. 94, lines 17 through 24)

Mr. Judd admitted the truth of his son's testimony as follows:

> "Q. Mr. Judd, do you intent to convey to this jury that each morning when he went to college he asked for permission of the car?
>
> A. Not on that occasion, but there was—he knew that it was just to go to college. When I told him he could take it to college that was a blanket more or less for those mornings. Any other time it had to be specific." (T. 20, lines 1 through 7)
>
> "Q. Mr. Judd, isn't it true that Kenneth had keys to this car?
>
> A. Yes. I had my keys on the key ring, and I didn't want to take it off all the time." (T. 24, lines 10 through 13)

The jury, then, were presented with the picture of a family which claimed to have applied strict control over the use of their automobile but were forced to admit that their rules and instructions had not been followed and were in fact rendered meaningless by Kenneth's actions and their knowledge of such actions. Perhaps even more inconsistent is the picture of the careful father who suspects there may be misuse of the family automobile, yet provides the suspect with a set of keys to it and clothes him with blanket authority to use it while going to college. We urge that these inconsistencies are such as were required to be resolved by a jury. Their special verdict demonstrates that they did *not* believe that whatever instructions were given to Kenneth were actually intended to prevent his delegation of the operation of the family automobile to Willene. An instruction given with a wink of the eye and with the intent that it be disregarded or with knowledge that it will not be applied is not genuine and has no meaning.

Although a great quantity of the direct evidence was admittedly to the effect that there was an express prohibition against allowing others to operate the automobile, still appellees urge that the direct evidence also shows without question a pattern of behavior by Kenneth accepted and acquiesced in by his parents from which the jury could find an implied permission for Willene to operate the automobile at the time of the accident.

In *Bradford v. Sargent,* 135 Cal. App. 324, 27 P.2d 93 (1933) the court contrasted express with implied permission in the following language:

> "Express permission would necessarily include prior knowledge of the intended use and an affirmative and active consent to it. An implied consent would indicate a sufferance of use or a passive permission deduced from a failure to object to a known past, present, or intended future use *under circumstances where the use should be anticipated.* Knowledge of some act or intended act on the part of the user by the owner should be necessary before consent to use should be implied." (Emphasis supplied.)

We urge that the direct evidence of this case establishes through a course of conduct circumstances where Kenneth's delegation of use to Willene should have been anticipated. The jury, therefore, was justified in returning its special verdict on the basis of the direct evidence alone.

(2) Circumstantial Evidence.

It is appellees' contention that appellant's failure to inform the Financial Responsibility Section of the Arizona Highway Department that Willene was not insured under the Judds' policy of insurance with regard to the accident which occurred on February 28, 1959, creates a strong inference that she was as a matter of fact operating the automobile covered by that policy with the permission of the named insureds. We further urge that the jury were entitled to find for appellees solely on the basis of this undisputed and unimpeached circumstantial evidence. This proposition is adopted in *Hinton v. Indemnity Insurance Company of North America,* supra, one of the cases relied upon by appellant, where the court said:

> "The question of the grant or of the absence of permission to drive an automobile, when based on conflicting evidence is a question of fact for the jury. Permission may be shown by positive or circumstantial evidence. The jury may allow unimpeached circumstantial evidence to overcome opposed negative or questionable oral evidence, as it is in their province to pass upon the credibility of witnesses."

The facts in question were presented to the jury in part by a stipulation of counsel which was read to them as follows:

> "The Court: I ask the Reporter to now read for the information of the jury a stipulation which counsel for all the parties previously have entered into and do, on this occasion confirm.
>
> (Whereupon, the stipulation was read by the Reporter as follows:
>
> Mr. Fox: ... "It has previously been stipulated that—
>
> The Court: And is now confirmed?
>
> Mr. Fox: And is now confirmed that Alice Willene Williamson, now Alice Willene Judd, in completing and filling out and filing the accident report required by the Arizona Statutes, did claim insurance coverage under the automobile liability policy issued by plaintiff to Ray A. Judd and Lucille Judd, and in force and effect at the time of the accident; it's further stipulated, now confirmed, that the Financial Responsibility Section of the Arizona Highway Department received this report showing that coverage was claimed by

Alice Willene Williamson, now Alice Willene Judd, under the aforesaid policy; that pursuant to the statutes, the Financial Responsibility Section, sent to plaintiff, State Farm Mutual Automobile Insurance Company, the form called FR-1-A.

It is further stipulated that State Farm Mutual Automobile Insurance Company received this form from the Financial Responsibility Section and did not, within the time required by the Financial Responsibility Section or by Statute, or at all, return this form or in any way notify the Financial Responsibility Section of the Arizona Highway Department that it denied the coverage which Alice Willene Williamson, now Alice Willene Judd, claimed.

Mr. Grainger: So stipulated.

Mr. Quisenberry: So stipulated.)" (T. 134, line 20, through T. 136, line 2)

Appellant wholly failed to rebut the inference to be drawn from these facts. It presented no witnesses to offer explanation of its failure to present to the Financial Responsibility Section the same policy defense it urged to the jury. There was no suggestion that it did not have the information necessary to have informed the Financial Responsibility Section that it denied coverage at the time it received notice that Willene claimed coverage, and as a matter of fact, the uncontradicted testimony of the witnesses showed that it was so informed. From the testimony of Ray A. Judd (Counsel's objections and the Court's rulings thereon omitted):

"Q. Mr. Judd, after the accident when did the Plaintiff, State Farm Mutual Automobile Insurance Company, or someone representing them first contact you?

A. I believe I made the first contact. I believe I contacted the insurance company. I don't remember whether it was that Saturday afternoon or Monday, but shortly after the accident I called the insurance company and told them the car was involved in the accident.

Q. (By Mr. Quisenberry) This was after you had spoken to Willene, after the accident?

A. Yes. She was filling out a form and asked me for that other information.

Q. And approximately how long was this after the accident?

A. I don't remember exactly. Very shortly afterwards.

Q. Now, did you inform them at that time that the car was operated by Willene?

A. Yes, I did.

Q. Now, did you at sometime subsequent to that make a statement to the insurance company, give a formal statement to them?

A. I believe so. They got in touch with me, or I called them. I don't remember which, but I did give them the full information that they requested." (T. 31, line 14, through T. 33, line 6)

Willene offered the following:

"Q. Now, Willene, were you contacted at any time by representatives of the Plaintiff's, State Farm Mutual?

A. Yes.

Q. And when did this occur? How long after the accident?

A. I don't know exactly how long. It was shortly after the accident." (T. 70, line 25, through T. 71, line 5)

Kenneth's testimony was as follows:

"Q (By Mr. Quisenberry) Kenneth, when were you first contacted by a representative of State Farm Mutual?

A. I don't remember.

Q. Were you so contacted?
A. Yes.
Q. Were you in any way involved in this accident?
A. No.
Q. What was the purpose, what occurred on the first time that you were contacted?
A. I don't remember.
Q. I didn't hear you.
A. I don't remember.
Q. Do you recall when you were first contacted?
A. No, I sure don't. It's been quite a while.
Q. Do you recall what was discussed?
A. The only thing I can really recall is whether there was permission or not." (T. 110, lines 9 through 25)

We contend that the facts as disclosed by the above unopposed testimony and by the stipulation which was read to the jury are wholly inconsistent with the position which appellant took at the time of the trial and takes on this appeal and that the only rational proposition which can be deduced from these facts is that Willene had permission to drive the Judds' automobile and was insured under the omnibus clause of appellant's policy of automobile liability insurance.

It is, of course, basic that, "It is the peculiar and exclusive province of the jury to decide upon the credibility of witnesses." Volume 4, Jones on Evidence at page 1863. In this case the jury had presented to them a basic inconsistency in the testimony offered by Kenneth and his parents; i.e., the inconsistency between a parent who claims on the one hand to have exercised strict supervision over the use of his automobile and on the other hand admits that he provided his son with a set of keys after knowing the son had used the automobile in a manner he disapproved.

The jury, of course, was asked to resolve these inconsistencies and, in order to do so, they were required to determine how much credit should be given the testimony of the witnesses regarding matters in which they were interested. There were ample indications that the testimony of the Judds would have to be scrutinized most carefully. For instance, the following exchange took place after the caption of the case had been read to Mr. Judd:

> "Q. You are not named among those defendants, are you?
>
> A. No.
>
> Q. Not a party to this suit then?
>
> A. That's right.
>
> Q. Your connection with this suit is simply you are here as a witness for the Plaintiff, is that right?
>
> A. Well, because my car was in use.
>
> Q. I understand. It is true is it not that you came here to testify voluntarily; that you haven't been subpoenaed to come here?
>
> A. That's right.
>
> Q. At whose request did you come?
>
> A. I believe it was Mr. Grainger." (T. 42, lines 7 through 19)

The record will show that Mr. Grainger was trial counsel for appellant.

Mrs. Lucille Judd's testimony was rather thoroughly impeached as a result of the following exchange:

> "Q. Also you testified that you didn't know her well?
>
> A. Not other than just the daughter of one of the tenants.
>
> Q. Was she ever a guest in your house?
>
> A. She may have come in a couple of times with Ken. None other than waiting for him, I guess.

Q. Mrs. Judd, you will recall that your deposition was taken on December 6, 1962, in our offices?

A. Yes.

Q. I'll read the questions and answers which appear starting at line one, page eighteen of that deposition:

'Question: Now, prior to the accident approximately how long had Kenneth dated the Williamson girl?

Answer: I imagine about six months.

Question: How frequently would he date her?

Answer: Well, being tenants we were well acquainted with the parents, so it was more or less a family reunion if we had them over for dinner, and the family came and included Willene.

Question: Would this include once a week or oftener than that?

Answer: Not oftener, no.'

"Do you recall those questions and those answers from your deposition?

A. Yes, sir.

Q. Do you believe that they are correct answers to the questions?

A. Yes, sir." (T. 58, line 21, through T. 59, line 22)

As for Kenneth, it was the Judds themselves who established him as one careless with the truth. Mr. Judd testified:

"Q. During the period that Kenneth was—before the accident and while he was using this car, did you ever interrogate him to find out whether or not he was obeying the instructions you laid down?

A. Yes. I asked him different questions about it.

Q. Did you ever ask him if he had loaned the car to anyone else?

A. Yes. That subject came up because I—

Q. Just a moment, Mr. Judd. The answer is yes, and what was his answer?

A. He told me that he didn't allow anybody to use it.

Q. And up to the time of the accident you then had no knowledge that he loaned it to anyone else, is that correct?

A. That's right.

Q. Is your knowledge any different now?

A. Yes, it is.

Q. Aside from the occasion when he loaned the car to Willene, do you now believe he loaned it to others?

A. I believe once or twice that he done it besides that.

Q. And yet you had interrogated him regarding this point, and he told you that he hadn't loaned it?

A. That's right.

Q. On those occasions then I take it he was lying to you?

A. Yes." (T. 40, line 17, through T. 41, line 15)

Mrs. Judd testified as follows:

"Q. Did you ever participate with your husband in interrogating Kenneth with regard to the use of the car, whether or not he had broken the instructions or disregarded the rules that were laid down?

A. Yes.

Q. You didn't learn—I think this was your testimony—You didn't learn of any instances when he had loaned the car to anyone?

A. Not prior to the accident, no, sir.

Q. Then if he had loaned the car, I take it he must have been lying to you on those occasions when you were interrogating him, is that right?

A. Yes." (T. 57, lines 5 through 17)

The jury, then, were faced with on the one hand direct testimony which it may very well have discredited and, on the other, by appellant's admission that could be deduced from the uncontroverted and unimpeached circumstantial evidence. Also for it to consider was the fact that appellant had wholly failed to meet this circumstantial evidence or for that matter even to attempt to do so.

We urge that the circumstantial evidence of this case establishes that Willene's use was permissive and that since a cloud existed with regard to the veracity of the direct testimony, the jury was justified in returning its special verdict on the basis of this circumstantial evidence alone.

C. Re Court's Instruction on Implied Permission.

Appellant's second assignment of error is based on the theory that the jury could have been misled by the Court's instruction on implied permission because they were not expressly directed that one must have knowledge of an event if he is to consent to its occurrence. Appellees oppose this theory on the ground that the requirement of knowledge is implicit in the concept of permission and that there was no need to define that concept to the jury.

The challenged instruction was given to explain and distinguish permission which arises through implication and permission which is expressly recognized and created. That this was its sole purpose is apparent from a review of the instruction as given by the Court:

> "You are instructed that the word "permission" as used in plaintiff's automobile liability Policy No. 614491-F30-3, means either express or implied permission.
>
> "Express permission is that which is communicated from the named insured to the user of the automobile either directly or through an intermediary. You must not find that an express permission was given in this case.
>
> "The issue in this case is whether or not implied permission existed. Implied permission is that which arises out of the conduct of the parties and the circumstances surrounding their actions. It results from

such actions and may be found where the course of conduct of the parties is such as to manifest assent to or acquiescence in the act in question.

"If you find that the actions and conduct of Ray A. Judd and Lucille Judd are such as to signify their assent or lack of objection to the delegation of the use of the automobile in question to Alice Willene Williamson, now Alice Willene Judd, then you should find such use was with the implied permission of Ray A. Judd and Lucille Judd. If you do not find those necessary conditions, then you cannot find such implied permission." (T. 141, line 7, through T. 142, line 3).

Counsel for appellant sought no instruction defining permission at the time of the trial and none was given by the Court. The only instruction given which explained or defined the subject of permission or of implied permission is that quoted above and it is obviously not intended to educate the jury as to the requisites of a grant of permission. That knowledge is one of those requisites we readily admit. It is implicit in the term itself and to speak of "giving permission with knowledge of the facts" is to be redundant.

To the effect that knowledge is an integral component of permission, we offer the following language of *Atwater v. Lober,* 133 Misc. 652, 233 N.Y.S. 309 at 313 (1929), quoted with approval in *Bradford v. Sargent,* supra:

"It cannot be said that one has permitted or suffered a thing when he had no knowledge of it; the words 'suffered' and 'permitted' necessarily imply knowledge, and do not impose any duty to prevent or to use reasonable care to prevent, except where he permits or suffers after acquiring knowledge. Clover Creamery Co. v. Kanode, 142 Va. 542, 129 S.E. 222".

In reviewing a trial court's instructions to the jury, an appellate court must give consideration not only to those portions to which objection has been made, but to the whole of the instructions so as to determine whether the intent and effect of the claimed prejudicial material has been offset and corrected by other portions. *Beye v. Anders,* 159 Kan. 502, 296 P.2d 1049 (1956). In this case, when the court's comments regarding implied permission are considered as a whole, there is to be found no suggestion that it intended that the jury might find an implied permission in the absence of knowledge of the facts. The jury were directed that implied permission "arises out of the conduct of the parties and the circumstances surrounding their actions" and may be found to exist where the course of conduct of the parties "is such as to manifest assent to or acquiescense in the act in question". The instruction requires conduct which actually demonstrates assent or acquiescence and this requirement certainly makes it clear that implied permission can only be found where the parties are capable of giving actual permission; in other words, where they have knowledge of the facts and the ability to prevent the act in question. We contend that the instruction was clear and unambiguous and did not, as appellant has suggested, remove the element of knowledge.

Moreover, it seems to us that the particular portion of the instruction to which appellant makes exception is not objectionable even when read out of context. It simply directs the jury that they may find for appellees if they find that the actions and conduct of the Judds were such as to signify their assent or lack of objection to the act in question. It distorts the meaning of these words to attempt to read them to mean that permission could exist if the Judds failed to make objection even though they had no knowledge of facts which would cause them to believe that an objection might be or should be made in order to prevent a certain use of their automobile.

Appellant complains that its Instruction No. 3 should have been offered by the Court and contends that the only important distinction between this instruction and the one which was given is the element of knowledge. However, we submit that the real difference between appellant's requested instruction and that given by the Court is that the former requires that implied permission be demonstrated clearly and convincingly. Whether this is a correct statement of the law or whether implied permission can be proved by a simple preponderance of the evidence is moot for purposes of this appeal, for appellant has not complained of the Court's failure to instruct according to this theory. The point is that appellant's exceptions to the instructions were not based on a claimed subtraction of the element of knowledge from the concept of permission, but rather on the theory that "the proper test of implied permission as to *burden of proof* is that the implication must signify clearly and convincingly an understanding consent." (Emphasis supplied.) (T. 152, lines 12-14). The argument which appellant presented to the trial court related to the burden of proof and it cannot now adopt new theories. See *United States v. Waechter,* 195 F.2d 963, a 1952 decision of this Court, where it was held "that the government, whatever may be the strength of its present argument, cannot fairly urge as a ground for reversal a theory which it did not present while the case was before the trial court."

We urge, therefore, that the Court's instruction as given is a correct statement and could not in any way have misled the jury, couched as it was, in words of simple meaning and common understanding. In any event, even if the theories appellant now presents on this appeal were to be thought valid, there is no ground for reversal, for these theories were not urged upon the trial court.

D. Initial Permission as Applied to Delegation of Use.

All of the evidence is in accord that Kenneth had the express permission of his parents to use their automobile and that he gave Willene his express permission to use it. Appellees urge that on this set of facts it should be held that Willene is covered by the omnibus clause of the Judds' automobile liability policy regardless of any attempts made by the Judds to place limitation or restrictions on Kenneth's use.

The cases involving delegation of use by a permittee fall into three categories: (1) Those where the permittee has express authority to delegate use; (2) Those where nothing has been said regarding delegation of use by the permittee; and (3) Those where the permittee has received express instructions prohibiting delegation of use. If we assume that appellant's arguments are well taken, then it becomes necessary to examine the case law regarding a permittee's delegation and our attention is naturally drawn to the third category of cases. It would certainly be a correct statement of the law to say that the majority of the cases in this category hold there is no coverage to the second permittee under the standard automobile liability insurance omnibus clause. However, the law is progressing and the trend of the cases is to a more liberal view with regard to coverage questions toward the end that the innocent victim who suffers by reason of a highway accident will be protected.

Before making further comment on the case law, it seems appropriate to pause and review the nature of the subject matter which is involved in this appeal, for we feel that the persuasiveness of some of the holder cases applying narrow restrictive views to coverage questions may be somewhat dulled by a consideration of modern conditions and the rapidity of change in these conditions over the past decades.

As time has gone by and the use of the automobile has incereased, the law has seen fit to change and to progress so as to accommodate the various needs which have arisen. Our society today is perhaps more profoundly influenced by the manufacture, sale, maintenance and operation of automobiles than by any other single factor. The numbers of our population who own or operate automobiles and the number of miles of highways upon which to operate them have been constantly increasing during the course of our modern history so that a new, all time, statistical high is reached almost every year and perhaps even every month. The same kind of skyrocketing increase has been and is being shown by the statistics on highway accidents. There is an ever growing segment of our population which has been touched in some way by injury or death suffered as the result of a traffic mishap.

This situation has caused changes in the automobile liability insurance business. Some of these changes have come from the various state legislatures, nearly all of which have enacted some form of financial responsibility law and a few of which have gone so far as to enact compulsory liability insurance laws. Some have come from within the insurance industry itself, as witness the relatively recent development of uninsured motorist coverage. Some have come from our courts. The trend has been and is towards a more liberal interpretation of automobile liability insurance contracts, to the end that coverage may be expanded and the innocent victims of highway accidents may be protected and restored. Accordingly, we urge that public policy would best be served were the rule to be adopted by the courts of our land that persons who are operating an insured automobile under some color of authority are within the omnibus coverage of the owner's policy.

Curiously, an excellent discussion of the problems facing a court free to adopt such a rule comes from a case decided thirty years ago. In *Brower v. Employers' Liability Assur. Co.*, supra, a case which deals with a deviation from the intended use by the original permittee as opposed to an unauthorized delegation of use, the court made the following comments:

> "One class takes the position that an indemnity or liability insurance policy is intended to protect any person injured by the legitimate operation of the car regardless of how or where the accident took place and regardless of whether the operator of the car was, at the time of the accident, using it for the restricted purpose for which it had been delivered to him in the first instance. In the view of these authorities a deviation, material or otherwise, from the terms of the bailment does not place the operator beyond the protection of the policy; "permission" is construed as applying solely to the bailee's right to the possession of the car in the first instance and is not limited by any restrictions or conditions the owner may impose on the use of the car."
>
> "Another line of authorities places a restricted construction on such omnibus clauses in indemnity policies and confines liability thereunder to such accidents as occur while the car is being used for the specific purpose for which permission to operate the car was granted; if there is a material deviation by the operator from the purpose or terms of the bailment, the insurance company is not liable to an injured party."
>
> "This court has not definitely laid down any rule on the subject, but it must be said that there is much force in the argument that as indemnity insurance on automobiles has become quite general, some attention should be given to the fact that the accident occurs

while one has possession of the car under color of authority. The owner puts the car in the control of the user and in his power to do the act complained of. Such adherence would bring all indemnity insurance within the lines adopted by the Legislatures of the several states. It would seem that the very purpose for which these insurance policies are taken, or required to be taken, out is to give any person whose injuries are deemed by law to have been caused solely by the operation of an automobile some safe place for redress."

Courts generally, however, seem to have distinguished between situations involving a deviation from the intended purpose by the original permittee and an unauthorized delegation of use, for although a number of states have adopted the so-called "initial permission" rule with regard to the former situation, they have failed to apply it when faced with the latter. See for example *Cocos v. American Automobile Insurance Company,* 302 Ill. App. 442, 24 N.E. 2d 75 (1939).* In this case the court relied on the proposition that the insurer has not calculated its premium charge so as to underwrite the additional risks which are incurred if a named insured's permittee is allowed to delegate use of the insured automobile. Accordingly, it was held that the named insured cannot as a matter of law delegate his discretionary authority to afford liability coverage under the omnibus clause of his insurance policy. *Card v. Commercial Casualty Company,* 20 Tenn. App. 132, 95 S.W. 2d 1281 (1936) is to the same effect.

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*It is interesting to compare a more recent Illinois decision, *Hays v. Country Mutual Insurance Company,* 38 Ill. App. 2d 1, 186 N.E. 2d 153 (1962), which dealt with an unauthorized delegation of use. Cocos was disapproved, the court recognizing the "growing tendency on the part of the courts the country over, to adopt a liberal view as to the coverage afforded by the omnibus clause of liability policies."

It is worth noting that Cocos and Card, both of which are cited and relied upon by appellant, deal with a situation where the first permittee was an employee of the named insured and had been provided the automobile for use in connection with the employment. It is apparent that such situations are to be distinguished from those involving family cars and a close relationship between the named insured and the original permittee, both from an insurance underwriting standpoint and from a public policy standpoint. In this modernday world, the lending of "family" automobiles is commonplace and might certainly be said to be within the contemplation of firms engaged in underwriting automobile liability risks. An employer's automobile is more often intended for business purposes only and its use by an employee is frequently governed by rules and regulations adopted by the employer. It may be that the insurance underwriter should not be held to have contemplated that these rules and regulations will be broken and the car used for other than business purposes or by persons other than those expressly authorized by the named insured.

Appellees point out that it was never contended by appellant that the Judds could not authorize Kenneth to loan their automobile to Willene. Cocos and Card, therefore, are not persuasive except insofar as they tend to demonstrate how far some courts have gone in limiting the operation of the omnibus clause. Nor is *Ohio Casualty Insurance Company v. Plummer,* 13 F. Supp. 169 (D.C. S.D. Tex. 1935), cited and relied upon by appellant, inasmuch as it dealt with a delegation by one who had taken the automobile without the knowledge or consent of the named insured. *Colombia Casualty Company v. Lyle,* 81 F.2d 281 (5th Cir. 1936) and *Clemons v. Metropolitan Casualty Insurance Company,* La. App., 18 S.2d 228 (1944) both dealt with delegation of use by an employee who had been instructed against such a delegation. We urge that these cases involving, as they do, an employer-employee relationship, are not persuasive in dealing with a situation involving a family or other close personal relationship.*

In this case, there was a close relationship between Willene and Kenneth at the time of the accident. There is no dispute but that she and her family lived in a residence rented from the Judds and located relatively close to the Judds' residence where Kenneth lived, nor is there any dispute that Kenneth and Willene were dating regularly prior to the time of the accident and, as a matter of fact, were married shortly afterwards. Mr. Judd testified as follows:

> "Q. Now, where did Willene live in relation to your home? How far away?
>
> A. Oh, probably would be a couple hundred feet to the rear and to the north of our home.
>
> Q. And she lived there from the time that she and her parents arrived in——
>
> A. They were renting that house from us, yes." (T. 16, lines 17 through 23)
>
> "Q. How frequently did your son, Kenneth, have dates with her?
>
> A. I can't remember that.
>
> Mr. Granger: It is outside his knowledge.
>
> Q. (By Mr. Quisenberry) To your knowledge?
>
> A. He might have one one week and maybe two dates another week.
>
> Q. Did this continue during this entire four or five months?
>
> A. No. It wasn't until after they lived there two or three months that they started dating like that.

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*See 7 Am. Jur. 2d 432 where the author remarks that the strict rule seems to have grown out of cases involving employee relationships while the adoption of a more liberal rule is laid to the use of many automobiles as "family cars". Under the liberal rule, authority to delegate is to be more readily assumed when the general use of the car is for social rather than business purposes.

Q. How frequently were they dating immediately prior to the accident?

A. Once or twice a week.

Q. Now, Mr. Judd, how long after the date of the accident was it prior to the marriage of your son and Willene?

A. State that question again?

Q. How long was it after the accident when your son and Willene were married?

A. Well, I believe it was a month or so afterwards." (T. 17, line 20, through T. 18, line 14)

There remains for discussion *State Farm Mutual Insurance Company v. Porter,* 186 F.2d 834 (9th Cir. 1950) which appellant has dealt with at length. Appellant overlooks the fact that this wase a case where the owner had expressly forbidden the first permittee to let anyone else drive his car. Suffice it to say here that appellees support the decision and the court's statement that "if the owner's permittee has entrusted the automobile temporarily to another, the latter's use is deemed to be with the owner's permission." This simply applies the philosophy of the initial permission rule to a case involving delegation of use and represents, to our way of thinking, the trend of the law in the country.*

We urge, therefore, that appellant's assignments of error are harmless since, under the authority of Porter and others of the more modern decisions, appellees are entitled to judgment as a matter of law on the undisputed facts of the case.

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*In *Allstate Ins. Co. v. Fidelity & Cas. Co. of N. Y.,* 73 N.J. Super 407, 180 A.2d 168 (1962) held that the language of the omnibus clause in an automobile liability policy is to be construed broadly in favor of the insured and the injured. Applieation of the initial permission rule to an unauthorized delegation of operation was approved.

E. Delegation Benefiting Permittee or Owner.

"The 'general rule' that a permittee may not allow a third party to 'use' the named insured's car has generally been held not to preclude recovery under the omnibus clause where * * * the second permittee, in using the vehicle, is serving some purpose of the original permittee. * * * it is more generally held that operation by a third person under such circumstances falls within the protection of the omnibus clause even where such operation is specifically forbidden by the named insured." 7 Am. Jur. 2d 435. See also the discussion and cases collected in an annotation in 160 ALR 1215.

The foregoing rule is apparently recognized by the court in *Duff v. Alliance Mutual Casualty Company,* 296 F.2d 506 (10th Cir. 1961), cited and relied on by appellant at page 11 of its brief. Emphasis was laid upon the fact that the particular purpose for which the second permittee borrowed the automobile and the actual use made of it were not to serve any purpose, benefit or advantage to either the owner or the first permittee. Apparently had the purpose, benefit or advantage of either the owner or the first permittee been served, the second permittee would have been afforded coverage by the court.

With this in mind, we turn to the testimony offered by Kenneth:

> "Q. Well, before she took the car did you give her any instructions as to what she was to do with the car?
> A. Yes.
> Q. And what were these instructions?
> A. To go and get her driver's license.
> Q. Did you give her instructions to go do anything else?
> A. Yes. I believe I did.
> Q. What was that?
> A. To stop by Fed-Mart if she had time.

Q. For what purpose?

A. To buy gas.

Q. Did you give her any instructions in regard to her return of the car?

A. I told her to be back when I got out of class.

Q. For what purpose?

A. To pick me up and take me home." (T. 104, lines 9 through 24)

The fact that there is an express prohibition does not diminish the effect of the rule. See *Loffler v. Boston Ins. Co.*, Mun. Ct. App. Dist. Col., 120 A.2d 691 (1956) and *Brooks v. Delta Fire & Casualty Co.*, La. App., 82 So.2d 55 (1955).

We urge, therefore, that the evidence before the Court demonstrates clearly that Willene's use of the Judd automobile was serving some purpose of the original permittee, Kenneth, as well as his parents (to buy gasoline for the car and to pick Kenneth up and take him home). We urge that this evidence requires that the judgment of the Trial Court be affirmed under the rule which provides that where the automobile is being operated on behalf of the first permittee or for the mutual purposes of the second permittee and the owner or first permittee, the operator is covered under the omnibus clause even though the first permittee may have been instructed not to allow anyone else to use the automobile.

F. Financial Responsibility Law.

Title 28, Chapter 7, of the Arizona Revised Statutes is denominated the "Uniform Motor Vehicle Responsibility Act". It provides that the driving privileges of persons involved in serious highway accidents shall be revoked unless:

(1) A deposit of cash sufficient to satisfy any judgment which may result from the accident is made with

the Superintendent of the Motor Vehicle Division; or, in the alternative,

(2) The person involved is protected by a policy of automobile liability insurance.

It is further provided as follows:

> "Upon receipt of notice of the accident, the insurance company or surety company which issued the policy or bond shall furnish for filing with the superintendent a written notice that the policy or bond was not in effect at the time of the accident, if such was the case. If no such notice is received, the policy or bond shall be deemed to be in effect for the purposes of this chapter." (A.R.S. Sec. 28-1142 (D))

The foregoing requirement of the Arizona statutes must be distinguished from the procedure established by statutes of other states where there is no coverage unless and until an appropriate form of acknowledgment is filed by the insurer. In Arizona the company is required to deny coverage and if it fails to do so, its policy "shall be deemed to be in effect". The word "deemed" is imperative in form and no other construction of it is possible. *McCluskey v. Hunter*, 33 Ariz. 513, 266 P. 18 (1928). It is apparent then that the Legislature intended that upon the failure of the insurer to give the notice contemplated by A.R.S. Sec. 28-1142 (D), the coverage claimed is no longer subject to challenge.

In this case, appellant received notice of the accident and of the fact that Willene claimed coverage under its automobile liability policy, yet did not file with the superintendent any notice that its policy did not cover Willene. These facts are established by a stipulation of counsel entered into at the time of the trial (T. 132, line 22, through T. 133, line 22) and previously set forth in full in this brief. Laying aside for the moment the inferences which we urge are to be drawn from appellant's failure to assert its claimed policy defense, appellees contend that appellant's policy covers Willene *as a matter of law*. See *Behringer v. State Farm Mutual Auto, Ins. Co.*, 275 Wis. 586, 82 N.W. 2d 915 (1957) and *Laughnan v. Aetna Casualty & Surety Co.*, 1 Wis. 2d 113, 83 N.W. 2d 747 (1957).

Under the authority of the *Behringer* and *Laughnan* cases, the insurer becomes liable to the actual limits of its policy and not to the limits prescribed by the statute where they are lower. We commend the rule of these Wisconsin cases to the Court as in accord with the public policy of the State of Arizona as announced in *Schecter v. Killingsworth*, 93 Ariz. 273, 380 P.2d 136 (1963). There the Court stated: "The Financial Responsibility Act has for its principal purpose the protection of the public using the highways from financial hardship which may result from the use of automobiles by financially irresponsible persons."

In *Jenkins v. Mayflower Insurance Exchange*, 93 Ariz. 287, 380 P.2d 145 (1963) the Court ruled that certain provisions of the Financial Responsibility Act must be considered as having been written in every policy of motor vehicle liability insurance. If this case means, and we urge that it does, that motor vehicle liability insurance in the State of Arizona is subject to the statutory requirements of the Financial Responsibility Act to the contractual limits of each individual policy, then it would seem to follow that by failing to deny coverage under the act, the entire policy would be deemed to be effective.

We urge, therefore, that appellant has brought this appeal on the grounds of harmless error, since on the facts as established by stipulation of counsel, Willene is covered under appellant's policy in spite of any policy defenses appellant may claim to have, by reason of this failure to deny such coverage in accordance with the financial responsibility law of Arizona.

CONCLUSION

It is respectfully submitted that the judgment of the Court below should be affirmed.

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September, 1963

We certify that in connection with the preparation of this brief, we have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in our opinion, the foregoing brief is in full compliance with those rules.

JACK H. LANEY
H. WILLIAM FOX

No. 18,783

In the

United States Court of Appeals

For the Ninth Circuit

STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY, a corporation, *Appellant,* vs. ALICE WILLENE WILLIAMSON, a minor; JOHN BRENKMAN, a minor; CARL E. BRENKMAN; C. W. WADDOUPS; CLARA R. WADDOUPS; and SARA R. MURRY, dba RUDOLPH CHEVROLET, *Appellees.*	

Reply Brief of Appellant

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SUBJECT INDEX

TABLE OF AUTHORITIES

No. 18783

In the

United States Court of Apeals

For the Ninth Circuit

State Farm Mutual Automobile Insurance Company, a corporation,

Appellant,

vs.

Alice Willene Williamson, a minor; John Brenkman, a minor; Carl E. Brenkman; C. W. Waddoups; Clara R. Waddoups; and Sara R. Murry, dba Rudolph Chevrolet,

Appellees.

Reply Brief of Appellant

STATEMENT OF FACTS

This is a so-called sub-permittee case. Insureds, two adults, were insured by State Farm Mutual Automobile Insurance Co., appellants here. The insureds permitted the son of the family to use the car under close restrictions. Unquestionably, the insured never authorized the son to permit anyone else to use the car, indeed, appellants contend that this was positively forbidden. In any case, the son did permit a sub-permittee to use the vehicle. An accident resulted, and this action was filed to determine whether the policy covers accidents caused by such sub-permittee.

STATUTES INVOLVED

Arizona Revised Statutes Section 28-1142(D).

"Upon receipt of notice of the accident, the insurance company or surety company which issued the policy or bond shall furnish for filing with the superintendent a written notice that the policy or bond was not in effect at the time of the accident, if such was the case. If no such notice is received, the policy or bond shall be deemed to be in effect for the purposes of this chapter."

Arizona Revised Statutes Section 28-1170(G).

"A policy which grants the coverage required for a motor vehicle liability policy may also grant lawful coverage in excess of or in addition to the coverage specified for a motor vehicle liability policy and the excess or additional coverage shall not be subject to the provisions of this chapter. With respect to a policy which grants the excess or additional coverage the term 'motor vehicle liability policy' shall apply only to that part of the coverage which is required by this section."

ARGUMENT

I. Implied Permission.

It has been conceded throughout that there was no direct permission to the sub-permittee. Appellant has contended that there is no evidence at all of implied permission, and appellee contends to the contrary, see appellant's brief, pp. 9-20 and appellee's brief, pp. 11-26.

(1) Purpose.

In our opening brief we said that the sub-permittee intended to use the car, "not for any purpose of concern to the named insured, but for the purely personal purpose of her own of getting an Arizona driver's license." We base this upon the following exchange (T. 63):

"Q. What is the purpose you had in asking or arranging with Ken to take his father's car?

"A. I wanted to get my Arizona driver's license at the license bureau.

"Q. Was that the only purpose you were to use the car for?

"A. Yes."

Appellee says that she had a dual purpose, intending to purchase gasoline for the automobile and also to pick up the son of the insured, the permittee, to take him home. We submit that to call this a "dual purpose" is a severe exaggeration. She was told to stop by a gas station "if she had time" (T. 104) and she was told "to be back when I got out of class" (T. 104). In other words she was told to return the car by a particular time. There is nothing in the case to show that she in fact ever went anywhere near the gas station or that this was an object of her trip and it can scarcely be a dual purpose to require that a vehicle be returned to its possessor. By her own testimony, the sole purpose was to perform a function for herself of no conceivable interest to the insureds.

(2) Alleged Disregard of Rules.

As we have shown in our opening brief, the insured were rather more than normally strict about the use of this car by their son. There were numerous rules concerning the use of the car, and, as we have shown, they were enforced. The appellee asserts of the son "that as a matter of practice he disregarded these rules", citing T. 21-22, 57-58 and 89.

These citations do not establish that "as a matter of practice he disregarded these rules." The first involves a direct statement by the father that the son did "generally obey these regulations." It is acknowledged that there were instances when he did not obey them; but he was reprimanded and punished, as the father testified, for improper uses when they were discovered, "I took the car away from him from use for a period of time." (T. 23).

It is true that the son himself acknowledged that he violated instructions he was given (T. 89), but he also testified that he was thoroughly disciplined for any such abuses which his parents discovered. Specifically, the keys were taken away from him (T. 91). The best evidence of parental control is that at the time of the accident in question the boy was allowed to use the car only one morning a week, and that for the purpose of going to his classes (T. 44).

II. The Instruction.

This matter was covered in appellant's opening brief, pages 20-22, with reference to earlier discussion. It is answered by appellee at pages 26-30.

The entire case turns upon whether the insured had given the sub-permittee an implied permission to use the car. The appellant had asked for a definition of implied permission which would show that it depended upon "a course of conduct pursued with knowledge of the facts," including a requirement that it "signified clearly and convincingly an understanding consent which amounts in law to a grant of the privilege involved." The Court struck these knowledge elements of the instruction so that implied permission could be deduced from *either* the assent "*or* lack of objection" of the insured. The issue is therefore whether some express reference to knowledge must be made.

On this score, we cheerfully express the belief that we have the appellees laboring pretty badly. They concede that knowledge is a requisite of implied permission (appellee's brief p. 27) and then do their best to reason around the fact that it was stricken by contending that in various ways it is still implied from what is left of the instruction.

On this point, since we are agreed in principle, argument is not useful. We merely ask the Court to look at the instruction denied and compare it with the instruction given. The instruction denied clearly and precisely and distinctly had the element of knowledge in it, and the instruction given did not. This is the error of which we complain.

As for the contention that we did not make this objection below, our short and only answer is that we did. (See T. 152-153).

III. The Financial Responsibility Act.

Appellees seek to make two uses of the financial responsibility statute and State Farm's failure to deny coverage thereunder. (1) They contend that the failure to deny coverage "creates a strong inference" that the sub-permittee was operating the automobile with permission of the named insured. (Appellee's brief pp. 18-19). (2) They contend that the failure to deny coverage makes a determination on the question of implied permission unnecessary because appellants are somehow made liable up to the policy amounts merely as a result of the failure to file a form. (Appellee's brief pp. 39-40). We shall reply to each of these contentions in turn.

1. The Inferences Created.

A. The failure to deny coverage certainly does nothing to create an implied permission. It occurred after the use of the car and the resulting accident in question.

B. A failure to deny coverage has no probative value as evidence of the existence of a prior grant of implied permission. First, appellants were not called upon to deny coverage, but only to deny that a policy was still in effect—if it was not in effect. But it was. (For citations see below). Second, even if the company were called upon to deny coverage, failure to make that denial, in itself, creates many inferences other than that there was in fact implied permission. The failure may result from inadvertence, mistake, or a failure to respond to form letters. Further, the jury was told that the company intended to contest coverage from the first. Thus the sub-permittee testified that shortly after the accident she signed a paper saying that the company was not liable for her (T. 71). Her signed statement was a non-waiver form admitted as defendants' Exhibit A (T. 126).

2. Legal Effect of Failure to Deny Coverage.

A. Appellees contend (pp. 38-40 of their brief) that by virtue of the Financial Responsibility Act of Arizona, the plaintiff insurance company is liable here regardless of whether there was implied permission or not. This matter was not the basis of the decision below, and therefore had not been discussed in appellant's opening brief. *A.R.S. Sec. 28-1142(D)* provides that upon receipt of notice of an accident, the insurance company shall file with the Superintendent of Insurance "a written notice that policy or bond was not in effect at the time of the accident, if such was the case." It is stipulated that State Farm received such a notice here and that it filed no responsive written notice. From this the appellees seek in this Court to make some vast argument.

No one contends that the policy was not in effect at the time of the accident. The insureds were covered, and the policy was in effect. There had been no lapse, nor was there any question of fraud in obtaining the policy, and these would seem to be the normal points of inquiry intended by the statute. The Arizona law does not provide, nor, so far as we know, does any other jurisdiction provide that an insurance company is barred from challenging the coverage of a remote user merely because it did not file a notice regarding effectiveness of the policy at the time of the accident.

Appellees, in their brief at page 39, assert that "It is apparent then that the Legislature intended that upon the failure of the insured to give notice contemplated by A.R.S. Sec. 28-1142(D), the coverage claimed is no longer subject to challenge." No authority is cited. There is none.

The precise problem is one of construing the statutory language which directs the company to report that a policy is not "in effect", if it is not. The question is whether this language has the consequence, if no report is filed, of barring the company from raising the very different issue, not of effect, but of coverage.

Financial responsibility acts exist in every jurisdiction in this nation. Acts substantially similar to Arizona's are commonplace. But there are two aspects of the Arizona statute, very relevant here, which distinguish the Arizona Act.

A.R.S. Sec. 28-1142(D) directs the insurance company *to deny* that a policy is in effect. In many other jurisdictions, the comparable form (SR 1A in Arizona; SR-21 elsewhere) *acknowledges* effect, or effect and coverage, when filed by the company. See e.g., *Seaford v. Nationwide Mutual Insurance Company,* 253 N.C. 719, 117 S.E. 2d 733 (1961); *State Farm Mutual Auto. Insurance Co. v. West,* 149 F.Supp. 289 (D. Md. 1957).

The second variation, and in this Arizona is unique, is that Arizona specifically provides a remedy. Thus, if a company fails to notify the Superintendent of Insurance that a given policy is not in effect, "the policy or bond shall be deemed to be in effect for the purposes of this chapter." *A.R.S. Sec. 28-1142(D).* These distinctions are essential to accurate comparison of the case at bar with cases from other jurisdictions.

Appellees' argument—that failure to give the notice contemplated by A.R.S. Sec. 28-1142(D) prevents challenges as to coverage—finds no support in any jurisdiction where the statutory scheme operates on a failure to file basis. In fact, many jurisdictions where statements affirming policy effectiveness are filed have held that an insurance company may later contest issues of effect and of coverage. So far as we have discovered, the effect of filing or of failure to file the appropriate financial responsibility form has been determined in a report of cases only in these jurisdictions:

(1) *North Carolina.* In *Seaford v. Nationwide Mutual Insurance Company,* 253 N.C. 719, 117 S.E.2d 733 (1961), the insurance company had filed a form stating that the policy was in effect but that it did not cover the particular driver. The text of the decision, which might have been limited to the disclaimer, goes much further and holds in effect that the statement has no relation at all to liability.

> "[T]he next question is whether or not the filing of the SR-21 form by the insurance company, as required by G.S. Sec. 20-279.19, waives its right to deny coverage under the terms of the policy. In other words, does the filing of an SR-21 form with the Department of Motor Vehicles prevent the defendant insurance company from subsequently raising the defense that the policy in question did not cover the plaintiff in the Maryland accident?

"The purpose of the SR-21 form, as required by G.S. Sec. 20-279.19, seems to be a means of protecting one's driving privilege by proving insurance in the minimum amount required by this State, and was not intended to be a contract. The required filing of the SR-21 form does not show an intent on the part of the Legislature that once the insurer files the form showing that the policy is in effect, such act affects the contractual rights of the parties, or precludes the insurance company from thereafter seeking to deny its liability under the policy.

"The plaintiff contends that the filing of the SR-21 form should have the effect of estopping the insurer from later denying coverage under the policy, and cites a Wisconsin case, Behringer v. State Farm Mutual Auto Ins. Co., 275 Wis. 586, 82 N.W. 2d 915, in support of his contention. As a result of the holding in the Behringer case, supra, the laws of Wisconsin were amended so as to change the holding of that case. Indeed, since the law has been changed in Wisconsin the Supreme Court of that State has allowed the insurance company to raise a defense subsequent to the filing of the SR-21 form. Kurz v. Collins, 6 Wis. 2d 538, 95 N.W.2d 365."

Seaford v. Nationwide Mutual Insurance Company, 253 N.E. 719, 117 S.E.2d 733 (1961) at p. 737.

(2) *Wisconsin.* Appellees have cited two cases of some relevance here. (Appellees' brief page 40). They are stated to be authority for the dual propositions (a) that the company is liable as a matter of law and (b) that such liability runs to the policy limits rather than merely to the statutory limits. These cases are *Behringer v. State Farm Mutual Auto. Insurance Co.,* 275 Wis. 576, 82 N.W.2d 915 (1957) and *Laughnan v. Aetna Casualty & Surety Company,* 1 Wis. 2d 113, 83 N.W.2d 747 (1957).

On the issue of the effect of nonfiling, these two Wisconsin cases are simply irrelevant for the very good reason that the company had in fact filed a statement admitting both that the policy was in effect and that there was coverage. Each is therefore a case of affirmative waiver.

In these Wisconsin cases, the company was denied the right later to repudiate its direct admission. As is pointed out in *Seaford,* quoted above, the Wisconsin legislature has since changed the statutory scheme. Subsequent to the change, the Wisconsin court, in *Kurz v. Collins,* 6 Wis.2d 538, 95 N.W.2d 365 (1959), cited *Behringer* and then went on to say:

> "It is, therefore, our considered judgment that the filing of the SR-21 by Badger does not bar it from relying upon its defense of breach of the cooperation condition of the policy." *Kurz v. Collins,* 95 N.W.2d 365 at 373.

But all this is unnecessary wisdom here, where there was no written concession in the first place.

(3) *California.* The California statute is similar to the Arizona statute in that it requires the insurer to notify the department when a policy is not in effect. Thus, it too raises questions based on failures to file. (See Cal. Vehicle Code Sec. 16060.)

Simmons v. Civil Service Employees Insurance Co., 369 P.2d 262, 19 Cal. Rptr. 662 (1962), (and we adjure the court to beware of possibly confusing head notes) holds that where no statement was filed,

> "Where no policy coverage had been extended the damages flowing from such violation could not be measured by reference to such a policy." *Simmons, supra,* 369 P.2d at 265.

(4) *Arizona.* The Arizona statute is a shade different from all others because it, uniquely, expressly provides a sanction for failure to file the statement. It provides

> "If no such notice is received, the policy or bond shall be deemed to be in effect for the purposes of this chapter." *A.R.S. Sec. 28-1142(D).*

The only case construing the Arizona statute is *Hardware Mutual Casualty Co. v. Barrett,* an unreported but extensive opinion, Civil No. 3239 Phoenix (September 30, 1961). This was a fraud in the inception case, and the first issue was whether the company, which had not filed, could deny that the policy was in effect. Judge Powell held in the negative, a decision which we think clearly correct in view of the Arizona addition. However, nothing in that opinion relates to the issue here, which is whether coverage is open to challenge.

Judge Powell's opinion also dealt with the question of whether the statutory limit or the policy limit was the measure of the insurance company's obligation. We return to that question below.

We conclude that no decision holds that failure to deny coverage, where it is admitted that the policy is in effect, binds the company on the issue of coverage. The California decision in *Simmons v. Civil Service Employees Insurance Co., supra,* seems expressly to hold that coverage is not conceded by a failure to file.

B. Appellees further contend that an insurance company is not only bound on the coverage question by its failure to file, but also that it is bound beyond the statutory limit and up to the policy limit. Again, the only authority cited is the Wisconsin cases, *Behringer* and *Laughnan,* discussed above. (Appellees' brief page 40). As has been explained above, the authority of these cases is undermined even in Wisconsin.

Further, on our reading, *Behringer* has nothing to do with the question of statutory limits versus policy limits. *Laughnan* does hold the insurance company to the policy limits. But the court bases this holding upon an affirmative statement by the company (a) that the policy was in effect and (b) that the particular driver was covered. *Laughnan v. Aetna Casualty and Surety Co.,* 1 Wis.2d 113, 83 N.W.2d 747, 755 (1957). The question raised by this part of the appellees' argument is really a part of a much broader question. We may state the broader question as follows:

Assuming that a provision of the Financial Responsibility Act makes an insurance company liable, where it would not be liable on the policy, then is the liability measured by statutory limits or by policy limits?

The following jurisdictions, in the following cases, are among those which have held that the liability is not measured by the policy limits:

New Hampshire:

Farm Bureau Automobile Insurance Company v. Martin, 97 N.H. 196, 84 Atl. 2d 823 (1951);

New Jersey:

Behaney v. Travellers Ins. Co., 121 F.2d 838 (3d Cir. 1941);

California:

Simmons v. Civil Service Employees Insurance Co., supra;

North Carolina:

Seaford v. Nationwide Mutual Insurance Company, supra;

Wisconsin: (In a case subsequent to the cases cited by appellees)

Kurz v. Collins, 6 Wis.2d 538, 95 N.W.2d 365 (1959).

The above is merely a representative listing. In Arizona the answer should be clear. First, there is the Arizona statute.

A.R.S. Section 28-1170(G) expressly provides that there may be coverage in excess of the amount provided for in the Financial Responsibility Law and then in terms provides, "the excess or additional coverage shall not be subject to the provisions of this chapter." It is of course only "this chapter" which gives the appellees any claim on this ground at all.

Second, Judge Powell's opinion in *Barrett, supra,* a case decided upon Arizona law, concludes the following:

> "The liability of the insurance company under the circumstances as found in this case, and under the statutes above quoted, is limited to the minimum security requirements of the Act. Nowhere does the Act specify in clear terms or by strong innuendo that the policy to the full amount of the coverage shall be in full force and effect. Instead, by its terms, it limits the liability to the minimum coverage requirements. *Farm Bureau Auto. Ins. Co. v. Martin,* 97 N.H. 196, 84 A.2d 823; *Landis for Use of Talley v. New Amsterdam Casualty Company,* 347 Ill. App. 560, 107 N.E.2d 187; *Behaney v. Travellers Ins. Co.,* 121 F.2d 838 (3d Cir.)."

CONCLUSION

It is respectfully submitted that the judgment of the Court below should be reversed.

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By John P. Frank
D. W. Grainger

Attorneys for Appellant

October, 1963.

I certify, that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

John P. Frank

No. 18785

In the

United States Court of Appeals

For the Ninth Circuit

INTERSTATE PLYWOOD SALES CO.,
a corporation,
Appellant,

vs.

INTERSTATE CONTAINER CORPORATION,
a corporation,
Appellee.

APPELLANT'S BRIEF

Appeal from the United States District Court for the
Northern District of California
Southern Division

HONORABLE W. T. SWEIGERT, Judge

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No. 18785

In the

United States Court of Appeals

For the Ninth Circuit

INTERSTATE PLYWOOD SALES CO.,
a corporation,
Appellant,

vs.

INTERSTATE CONTAINER CORPORATION,
a corporation,
Appellee.

Appeal from the United States District Court for the Northern District of California
Southern Division
HONORABLE W. T. SWEIGERT, Judge

APPELLANT'S BRIEF

JURISDICTION

This is an action for damages for breach of contract. It was filed in the District Court for the Northern District of California, Southern Division. Plaintiff-appellant is an Oregon corporation, and its principal place of business is in Oregon; defendant-appellee is a California corporation, and its principal place of business is in California. The matter in controversy exceeds $10,000 exclusive of interest and costs (R 151).

The case was tried on January 8-10, 1962. On May 16, 1962 the trial judge entered judgment in plaintiff's favor for $395,410.02 (R 66). On August 14, 1962 he granted a partial new trial limited to a single claim of breach and the question of damages. He refused to retry questions of the validity and enforceability of the contract (R 89).

The partial new trial was held on December 3-7, 1962. On January 31, 1963 the trial judge issued an opinion holding that the contract was unenforceable. He did not rule on the question of damages at all (R 97). On March 21, 1963 he entered findings and conclusions (R 150) and judgment for defendant (R 161). On April 18, 1963 plaintiff appealed from the judgment (R 163).

The district court had jurisdiction under 28 USC § 1332 as amended. This Court has jurisdiction under 28 USC § 1291 as amended.

STATEMENT OF THE CASE

This is an action for damages for breach of a plywood sales agreement dated October 31, 1955 between plaintiff's predecessors[1] and defendant, under which plaintiff agreed to finance improvements to defendant's veneer plant at Red Bluff, California and market its production of veneer and plywood (Exh 1).[2]

At that time, defendant produced only digger pine

1. Fred Fields and F. A. Johnson, who own all of plaintiff's stock. It was assigned to plaintiff with defendant's consent on November 5, 1955 (R 29; Exh 1, par 11; 1 Tr 25-26, 97; 2 Tr 27).
References to the transcript of the first trial are indicated as "1 Tr". References to the transcript of the partial retrial are indicated as "2 Tr".
2. The contract is reproduced as Appendix B (post 90). Plywood is made by gluing sheets of veneer together (1 Tr 52-53, 134).

veneer (1 Tr 47, 113, 118, 134; 2 Tr 348) and wanted to manufacture plywood from digger pine and perhaps other species (2 Tr 93-95). Pine veneer was not regarded as competitive with douglas fir (1 Tr 57) and digger pine plywood was a new product of uncertain acceptance in the market (1 Tr 56-57; 2 Tr 94). Defendant had no plywood machinery (1 Tr 114; 2 Tr 348), and none of its officers had any experience in the plywood industry (2 Tr 348-349). Its production capacity was about 50,000,000 square feet per year on a ⅜″ basis (1 Tr 54; 2 Tr 276).

Under the contract, plaintiff supplied both financing and a marketing service to dispose of defendant's contemplated production and was granted the exclusive option to purchase 95% of its production at a 5% discount from the net mill price to jobbers.[3] The contract was for five years, and on June 14, 1960, in accordance with its terms, was renewed by plaintiff for an additional five years (R 29, 152; Exh 4; Exh 1, par 2).

Shortly after the contract was executed, defendant commenced to manufacture digger pine sheathing (1 Tr 113-114, 118-119, 133-135; 2 Tr 347-349)[4], but it could not be sold (1 Tr 46-48, 49, 56-57), and after 18 months or two years defendant commenced to make sheathing from douglas fir (1 Tr 59-60, 119-120).

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3. Jobbers are wholesalers with warehouses (2 Tr 198, 406).

4. Sheathing is a construction grade of plywood and has at all times constituted the bulk of defendant's production (1 Tr 119-120, 134; 2 Tr 221, 466).

On November 14, 1960, after attempting unsuccessfully to buy the contract from plaintiff and negotiating secretly with one of plaintiff's customers for a substitute for plaintiff's exclusive sales agreement (Exhs 2, 47; R 106; Schwab Dep 22-23; 2 Tr 433-434), defendant suddenly repudiated the contract and refused to accept further orders from plaintiff (R 30; Exh 5; 1 Tr 98-100, 101-102; Schwab Dep 25-26). Plaintiff seeks damages for loss of future profits resulting from defendant's repudiation of the contract.

During the life of the contract before repudiating it, defendant, without plaintiff's knowledge or consent, sold a substantial part of its production directly to third persons, mostly plaintiff's own customers, in excess of the 5% reserved in the contract for local sales and footage released by plaintiff in the spring of 1959 (Exh 6A, 24). Plaintiff also seeks damages sustained by reason of these outside sales.

The trial court first held that the contract was valid and enforceable and entered findings and conclusions and judgment in favor of plaintiff for $395,410.02, including damages for loss of future profits and resulting from outside sales (R 59, 66). On defendant's motion, it allowed a partial retrial "upon the issue of damages alone" (R 77). After the partial retrial, it refused to grant executory enforcement of the contract, because it concluded that a certain price formula in the contract (the "five-mill formula") was incapable of application, as intended, to resolve occasional differences between the parties over the current market price of plywood (see R 115-116, 122). It also held that the outside sales did not breach any of defendant's obligations under the contract (R 120-122; see R 78). It refused to decide the issue of damages (R 122). Judgment was entered for defendant on March 21, 1963 (R 161).

The Contract

a. The opening paragraph recited:

"WHEREAS, FIRST PARTY [defendant] owns and operates a veneer manufacturing plant located at Red Bluff, California with an estimated productive capacity of veneer of approximately three million square feet per month on a three-eights inch rough basis; and

"WHEREAS, FIRST PARTY desires to make arrangements for the addition of certain additional equipment in its veneer plant so that it will be in a position to produce sheathing and other grades of plywood from the veneer it is now manufacturing; and

"WHEREAS, SECOND PARTY [plaintiff] desires to make arrangements for the marketing throughout the United States and elsewhere of the plywood to be manufactured by the FIRST PARTY, and during the period while the additional equipment is being acquired to market for the FIRST PARTY its veneer production; and

"WHEREAS, SECOND PARTY has sales outlets for veneer and sheathing plywood and customers to serve in principal markets throughout the United States and elsewhere, and SECOND PARTY also has

> the necessary finances to acquire the necessary additional equipment to convert the veneer plant to a sheathing plywood manufacturing plant and are able to acquire either new or used equipment to complete the facilities of the FIRST PARTY:"

b. Defendant gave plaintiff the "exclusive option" to buy 95% of its production (Par 1), and plaintiff was obligated

> "* * * so far as possible * * * to provide the FIRST PARTY [defendant] with orders for 95% of the output of its veneer or plywood. * * * at the 'market' price of veneer or plywood * * *" (Par 3)

and to acquire and advance the price and installation expense of plywood manufacturing equipment (Pars 14-16).[5]

Paragraph 5 required that plaintiff

> "* * * as near as possible, supply orders to FIRST PARTY [defendant] to take into account the logs available for veneer and plywood production by FIRST PARTY. * * *"

c. The five-mill formula provided:

> "* * * The parties agree that the published market price listed to jobbers by the following plants shall be for the purposes of this agreement the 'market price':

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5. This and all other loans to defendant were repaid before this action was commenced (Exh 49; 1 Tr 26-28, 184-185).

United States Plywood Corporation, Anderson, California
Sonoma Plywood Company, Sonoma, California
Tri-State Plywood Company, Santa Clara, California
Industrial Plywood Corporation, Willits, California
Plywood, Inc., Klamath Falls, Oregon

It is recognized that the afore-mentioned mills publish price lists at different intervals and vary their prices by granting additional discounts. It is intended that the SECOND PARTY [plaintiff] obtain orders for the FIRST PARTY [defendant] at the average of such market price, taking into account the changes referred to herein." (Par 3)

d. Paragraph 6 gave defendant a limited right to dispose of production which plaintiff

"* * * shall find it is unable to sell * * * for any given month, * * * through brokers, other than SECOND PARTY [plaintiff], or through its own sales organization for that month."

e. Paragraph 8 provided:

"It is understood that SECOND PARTY [plaintiff] will normally take orders for shipment from 15 to 45 days after the order is taken and that SECOND PARTY may be required to commit FIRST PARTY [defendant] to a price for future shipment. FIRST PARTY shall accept such commitments for a period of up to thirty (30) days and shall be bound to protect the SECOND PARTY on the price on orders accepted for a period of thirty (30) days from the date of the order."

f. Paragraph 10 provided:

"The price of plywood purchased by the SECOND PARTY [plaintiff] from the FIRST PARTY [defendant] hereunder shall be the 'market price' to jobbers, less 5% and an additional 2% if the invoice is paid in accordance with paragraph 4. The price of veneer purchased by SECOND PARTY from FIRST PARTY hereunder shall be the 'market price' less 5% and an additional 2% if the invoice is paid in accordance with paragraph 4. The starting 'market price' hereunder is as set out on Exhibit 'A' attached hereto. In the event said veneer cannot be sold at the prices set forth on Exhibit 'A', the price shall be fixed by arbitration under paragraph 18 if the parties themselves cannot fix the market price."

g. Definition (d) provided:

" 'Market price' to jobbers shall mean the mill price less the <u>(five)</u> 5% <u>functional</u> discount to jobbers.

"<u>Example:</u>

Mill price	$100.00
Less—Functional Discount to plywood jobbers (5%)	5.00
Market Price (listed to jobbers)	95.00
Less Cash Discount (2%)	1.90
Balance	93.10
Less additional discount to SECOND PARTY [plaintiff] hereunder	4.66
NET TO MILL	$ 88.44"

(emphasis in original)

h. Paragraph 18 provided:

> "It is hereby agreed that in case any disagreement or difference shall arise at any time hereafter between the parties hereto in relation to this contract either as to the construction or operation thereof, or to the respective rights and liabilities thereto, such disagreement shall be submitted to the arbitration of three persons, one to be appointed by each party to this agreement, and the third to be appointed by the two so appointed. * * * Arbitration hereunder shall be governed by the laws of the State of California relating to arbitration. * * *"

The Five Mill Formula

The trial court found in both opinions that the contract price of plywood under the agreement was the general market price, and the five-mill formula was to be used only when the parties could not otherwise determine it (R 82-83, 102, 110, 119-120; 2 Tr 30-31, 326-327). Despite the language of the contract, it found after the partial retrial that the formula was intended to apply to both digger pine and fir plywood (R 98; 2 Tr 38, 46, 86, 102-103, 327). The listed mills were those nearest and generally similar to defendant's mill (2 Tr 37, 102, 171).[6]

The formula was adapted from a form of agreement used by United States Plywood Corporation which Mr. Johnson brought to the meeting at which the contract

6. These were all sheathing mills, but none used digger pine (2 Tr 169-170).

was discussed, drafted and executed (Exh 29; 2 Tr 84, 101). From the outset, the formula was not used and was never referred to by the parties, because some of the named mills were out of business and others did not publish price lists (R 101; 1 Tr 61, 65-66, 72-73; 2 Tr 63-64, 78-82,[7] 171-175, see 323, 333, 363).[8]

The Determination of Market Price under the Contract

During the life of the contract, plaintiff presented orders received from its customers to defendant almost daily which called for sales at market price (2 Tr 320). Each item on an order would be discussed by the respective sales managers of plaintiff and defendant, and it would be individually confirmed (1 Tr 68-70, 135-137; 2 Tr 317-320, 360-362, 384, 385; Smith Dep 5-6). Only then would plaintiff commit itself to its customer; otherwise it might be unable to fill the order (2 Tr 325).

The parties never consulted or mentioned the five-mill formula during the period of more than five years before defendant repudiated the contract (R 82, 103, 115; 1 Tr 137, 168-169; 2 Tr 332, 357, 362-365, 366-367). Instead, they determined the current market price of each item in a contemplated order from all available sources of market information, including (1) prices

7. Industrial Plywood published price lists irregularly which made no reference to discounts (2 Tr 78-79). It is not customary to do so (2 Tr 64, 79).

8. United States Plywood Corporation published a general price list, but none specifically for its Anderson mill (2 Tr 172-173). Its price list was referred to by the parties (1 Tr 90-91, 138, 155; 2 Tr 363) as were such other lists of these and other mills as might be available from time to time (1 Tr 91-92, 94, 138-141, 155-156).

quoted by other mills; (2) general market information acquired from their daily contacts in the industry; (3) market publications, including Crow's weekly reports; (4) current experience with their existing price list and the state of defendant's order file; (5) seasonal price fluctuations; and (6) the proposed method of shipment and other circumstances of the particular order (R 102-103, 104, 107; 1 Tr 61-73, 90-94, 135-137, 155-156; 2 Tr 318-320, 323-324, 329, 360-364, 368-369, 385-386; Smith Dep 17-18).[9] The trial judge found:

> "Looking to the conduct of the parties themselves during nearly five years of daily operation under the contract (before any controversy arose) and to conditions and practices of the industry presumably known to the parties upon execution of the contract, the evidence shows without dispute that neither party ever referred to the five mill formula as such, or to the apparent unworkability of that formula, or to the effect of any such unworkability upon the contract. In fact, they did not refer to the contract at all except as hereafter noted. Actually, the parties proceeded to endeavor to ascertain market price from transaction to transaction by reference to other, general market information sources." (R 102-103)

The parties agree on the meaning of the term "market price". Defendant's sales manager, Mr. Smith, testified that it is "the highest price that the material could be sold for" (2 Tr 356) and the "price at which [it]

9. In the industry, these are the factors usually considered in determining a price (2 Tr 387).

moves" (Smith Dep 19). Plaintiff's sales manager, Mr. St. Onge, described it as "the actual going market price" (2 Tr 324) and the "moving market" (1 Tr 62, 64, 67; see also 2 Tr 303, 319-320).

> "* * * it was the price that was generally being used by buyers and sellers in the industry at that time. * * *" (2 Tr 326-327)

Sometimes, the parties could not agree about the current market price. These disagreements were usually of short duration (2 Tr 359) and were described by defendant's sales manager, Mr. Smith, as occurring "very rarely" (1 Tr 137).[10] They would arise when a customer insisted on a lower price than that initially quoted. The matter was usually resolved by making an investigation of the market (2 Tr 359), and plaintiff would try to place the order at the price desired by defendant or seek more time or secure a change in specifications, or it might negotiate a different price (2 Tr 321, 354-356, 357, 381-382). Sometimes the sale would ultimately be made (1 Tr 62, 64, 67). Plaintiff did not, however, insist upon or seek to arbitrate or litigate the propriety of any specific price level; if it could not agree with defendant about the market price, it would merely refrain from exercising its option (R 105; 2 Tr 320-322, 332, 334-335, 358-359, 367).

10. They became "many" in his testimony at the partial retrial (2 Tr 359).

Defendant filled all orders which it accepted before it repudiated the contract (1 Tr 55, 142; 2 Tr 323, 354, 425) and failed to accept them only when there was a disagreement over market price (2 Tr 323).

Market price was sometimes difficult to determine. During the period involved, there was increasing production capacity in the industry (1 Tr 92; see 2 Tr 461-469), and the market price of plywood slowly declined (1 Tr 82, 85-86, 122). On occasion, it would fluctuate from mill to mill (R 103-104; 1 Tr 41-42, 63-64, 69, 76, 122; 2 Tr 223-224, 333-334, 385; McNeil Dep 13). The industry was subject to seasonal price variations, and price differences among the products made by a single mill would affect its overall return (1 Tr 93; 2 Tr 500-501, 506, 519-520). There were, furthermore, variations between published and actual prices (2 Tr 509) and mill price differences were sometimes reflected in discounts which the parties considered in determining the market price (1 Tr 171). In a falling market it is difficult to determine the market price (Smith Dep 18-19), and it becomes difficult to sell plywood, because warehouse customers are reluctant to buy until the trend is reversed (1 Tr 142-143; 2 Tr 224; Smith Dep 12-13, 17; McNeil Dep 13-14).[11]

11. In his second opinion, the trial judge found that market price was "difficult, if not impossible" to ascertain. He did not find that it was not legally ascertainable or that the parties did not ascertain it (R 105, 115). In his first opinion, he found that it was legally ascertainable (R 84).

Despite these conditions, plaintiff marketed roughly three quarters of defendant's total production during the period 1955-1960 (Exh 6A, 17, pp 2-3), and defendant's witnesses testified that it sold nearly all of the rest to others on the terms and at the net prices available to plaintiff under the contract (2 Tr 388, 420-421; see 1 Tr 144, 151).

The market price of plywood is characterized by a range or spread within which sales are being made at any time (1 Tr 158; 2 Tr 219, McNeil Dep 9). The trial court found after the partial retrial that defendant's quoted prices were consistently at or near the top of that spread (R 104).[12] Defendant's prices were consistently higher than those of Tri-State Plywood Co., one of the five mills listed in the formula (Exh 15, 17, 25).

Defendant's employee, Mr. McNeil, who was formerly plaintiff's sales representative in Los Angeles and went to work for defendant immediately after termination of the contract (2 Tr 232; McNeil Dep 18-19), testified to the competitive problem which this practice caused. The spread constituted the competition which he was selling against (2 Tr 219-220; McNeil Dep 9), and he was consistently undersold. Plywood was always available to his prospective customers elsewhere at a lower price, because he was quoting the top of the

12. The prices were not lower than those quoted by Crow's, which were always one week or more out of date (1 Tr 140; 2 Tr 223; McNeil Dep 12).

spread (2 Tr 216, 218, 219, 220-222, 227; McNeil Dep 8-9, 14-15; see 1 Tr 74-75).[13]

Other factors which limited plaintiff's sales were that defendant tried to restrict itself to ⅜″ production in certain grades only (2 Tr 221; McNeil Dep 10-11); defendant would permit only a two week order file, while many prospective customers needed 60 to 90 days delivery (2 Tr 211, 216, 384; McNeil Dep 5, 8-9);[14] and defendant failed for some time to secure approval of its product by the Douglas Fir Plywood Association (Smith Dep 10-11).

Plaintiff complained that defendant was insisting on prices which were not competitive in the market (Exh 20; 1 Tr 76; 2 Tr 180, 300-301, 303-304, 321, 356, 398-399; Smith Dep 9-10). Mr. Smith, however, resisted plaintiff's efforts to secure lower quotations (2 Tr 356, 398-399) and complained of the lack of orders at prices which he thought reflected the current market (see 2 Tr 158, 180, 233; McNeil Dep 19-20; Smith Dep 8-10; Schwab Dep 19, 20). The discussions usually related to mill price rather than discounts (2 Tr 329, 399, see 365), but in 1957 and later when other mills commenced to allow additional discounts to jobbers they discussed these added discounts; plaintiff pointed out that they made the quotations noncompetitive, and Mr.

13. He complained to Mr. St. Onge that the price was not competitive (2 Tr 226-227; McNeil Dep 14-15).

14. A short order file is particularly bad in a falling market (1 Tr 171-172).

Smith conceded that they amounted in net effect to a price reduction by the mill (1 Tr 162-163; 2 Tr 335, 336-338, 365-367). This often resulted in a reduced quotation (1 Tr 171).

The Discount System

The established discounts from mill prices at the commencement of the contract were 5% to the jobber and 2% for cash. If a mill used a sales company, an additional 5% was deducted as its compensation. The mill received mill price less 5%, 2%, 5%, while the jobber paid the sales company mill price less 5%, 2% (Exhs 12, 13; 1 Tr 107, 109, 161-162; 2 Tr 327-328).[15] This was the system prescribed by the contract (definition "d"; 1 Tr 79).

Thus, any mill which could develop its own sales for less than 5% would wish to do so and retain the difference or pass part or all of it on to its customer. Direct sales by the mill at 5%, 5%, 2% will always undercut the prices of its contract sales company, because it is giving the sales company discount to the direct customer, while still receiving its entire anticipated net return (1 Tr 152-153, 165).

Commencing in 1957, as industry plant capacity expanded, jobbers in the eastern markets commenced to demand additional discounts of 2% or 3%. This be-

15. The amount of each discount is based on the net amount remaining after deducting all prior discounts (Exhs 12, 13; 1 Tr 158-160).

came established in the market, and by 1960 40% to 50% of plaintiff's sales of defendant's production were marketed in that area on such terms (1 Tr 79-81, 123, 154, 156-157; 2 Tr 54-62, 71-74, 330-331).[16] The contract treated these discounts as reductions from mill prices (par 3), and they were so regarded by defendant (2 Tr 366-367) and were considered by the parties in determining market price (1 Tr 171). They were also allowed to jobbers by sales companies out of their commissions (1 Tr 79-80, 83-84, 123).[17] They were not given at all in the southwest market, however, and by an agreed marketing plan plaintiff tried to make 60% of its sales for defendant in that area (1 Tr 85; 2 Tr 337-338; Smith Dep 21-22).

The Outside Sales

a. Paragraph 6 of the contract provided:

> "In the event SECOND PARTY [plaintiff] shall find it is unable to sell 95% of the output of FIRST PARTY [defendant] for any given month, SECOND PARTY shall, as soon as possible, but in any event give the FIRST PARTY a ten (10) day notice of the portion of the production of SECOND PARTY that it is unable to sell during any month. In the event SECOND PARTY gives such notice, FIRST PARTY shall then be free to sell that portion of its estimated output on the open market through brokers, other than SECOND PARTY, or through its own sales organization for that month."[18]

16. The jobber was keeping this additional discount and passing on his own 5% discount to the dealer (1 Tr 82).
17. The mills now extend these discounts to their sales companies (1 Tr 84).
18. The trial court found that the notice provision was disregarded by the parties (R 118).

b. Defendant's direct (outside) sales occurred primarily during two periods:

From May, 1956 through July, 1957 (15 months) such sales amounted to 12,783,742 feet, or 45.35% of defendant's shipments (Exh 24).[19]

From May, 1959 through December, 1960 (20 months) such sales amounted to 28,501,559 feet, or 39.70% of defendant's shipments (Exh 24).[20]

In March and April, 1956 (2 months) (when defendant first commenced production) such sales amounted to only 26,132 feet, or 5.02% of defendant's shipments (Exh 24).

From August, 1957 through April, 1959 (21 months) such sales amounted to only 1,640,819 feet, or 2.48% of defendant's shipments (Exhs 6A, 24, 44; Exh 17, pp 2-4; 1 Tr 187-189; 2 Tr 257, 260-262).[21]

c. Defendant made the direct sales when it felt that the two week order file on which it insisted was short. It did so, without advising plaintiff, at prices which it claimed at the trial were equal to or above those quoted to plaintiff. Initially, it did so in response to inquiries from prospective customers (2 Tr 422-424,

19. This period included defendant's commencement of fir plywood production (1 Tr 59-60, 119-120).

20. This figure includes sales to United States Plywood Corporation after May, 1959, some 8,088,156 feet of which had been released by plaintiff on defendant's agreement to extend the contract by an equal amount (Exhs 3, 6B, 21, 26). If such sales are deducted, net outside sales during this period amount to 20,413,403, or 32% of defendant's shipments. (Exh 17, p 4)

21. This included the period when eastern jobbers commenced to receive additional discounts (1 Tr 80; 2 Tr 54, 57, 71). Retail sales are excluded from the calculations (2 Tr 259).

427-429),[22] but its growing sales organization came to actively solicit orders (Exh 7, Schwab Dep 12; 1 Tr 11; 2 Tr 424). Defendant's direct customers were in many cases customers of plaintiff, who accounted for about 75% of the total amount of unauthorized outside sales (Exhs 42, 48; 2 Tr 291-292, 413, 424, 592-593). The principal one was United States Plywood Corporation, which bought some 16 million feet in excess of the released footage at discounts of 5%, 5%, 2%. This was a customer of plaintiff, and defendant knew it (2 Tr 413). Defendant's manager, Mr. Smith, admitted that if these orders had been referred to plaintiff, defendant's order file would have been increased (2 Tr 429).

d. During the initial period of heavy outside sales (May, 1956 through July, 1957) the average amount of orders on file with defendant each week was equal to 12.2 days' shipping requirements. During the second period (May, 1959 through December, 1960) the average level of unfilled orders from plaintiff on hand each week was equivalent to 9.8 days' shipping requirements (Exh 17, pp 6, 7; 1 Tr 190-191, 199, 201, 213-214; 2 Tr 264-267).[23] There was not a single week in which the mill was out of orders from plaintiff (1 Tr 213; 2 Tr 286).

22. Mr. Smith testified that they did so only when their order file was less than six days (Smith Dep 16). For various stated reasons, defendant would permit only a short order file not exceeding two weeks' production (1 Tr 63, 146, 166, 168; 2 Tr 211, 216; McNeil Dep 5, 8-9).

23. The figures were determined from orders on hand on the same day of each week during each period (2 Tr 286). The figures for the latter period exclude the authorized sales to United States Plywood Corporation (1 Tr 201; 2 Tr 266).

e. At the first trial, defendant's sales manager, Mr. Smith, testified unequivocally and repeatedly that outside sales were "primarily" and "normally" made to plywood jobbers, i.e., to persons to whom plaintiff would customarily sell at mill price less 5%, 2% (1 Tr 143, 146). At the retrial, he attempted to reverse his prior testimony and testified that 75% to 80% of two groups of invoices which he examined evidenced sales by defendant to other sales companies at discounts of 5%, 5%, 2% and 5%, 3%, 2% (Exhs 22, 23; 2 Tr 388-391, 394). However, when asked on cross examination to state from examining the 300 odd invoices the names of the "sales companies" to whom defendant had sold (2 Tr 401-402), he could identify only six. One was in fact an integrated operator which stocked plywood and performed a jobber function (2 Tr 403-404) and three of the others, whatever their nominal functional level, were admitted by him to be plaintiff's customers (2 Tr 405, 408, 410, 411).

The greatest volume of sales—more than 24,000,000 feet, including 8,000,000 feet released by plaintiff in May 1959—were made to United States Plywood Corporation, nearly all at 5%, 5%, 2%, and United States Plywood Corporation was admittedly a customer of plaintiff (Exhs 3, 6B, 21, 42, 48; 2 Tr 128, 413, 418-419). Total outside sales to plaintiff's customers (in excess of the released footage) were more than 20,000,000 feet

(Exh 48, see also Exh 42; 2 Tr 592-593). Nearly all of the footage sold to plaintiff's customers was sold at discounts of 5%, 5%, 2% or more (Exh 48).

Thus, most of the outside sales were to plaintiff's own customers at prices which, while assuring the mill its anticipated net return (or more), could not be matched by plaintiff. Total outside sales to all persons (in excess of local sales and released footage) amounted to about 30,000,000 feet or more, of which more than 80% was sold at discounts of 5%, 5%, 2% or more (Exhs 6A, 42, 48).

f. The trial court found that plaintiff knew defendant's capacity and production and concluded that it must have known that outside sales were being made from unordered production (R 79, 118; see 2 Tr 431). Defendant's witnesses testified that they told plaintiff generally of the outside sales (1 Tr 143-144, 153, 166), but Mr. Smith admitted that plaintiff was not notified of them or given an opportunity to have the business, saying that he feared that plaintiff might place the orders elsewhere (2 Tr 429). Plaintiff had no specific knowledge of the sales prior to the audit made after suit was filed (2 Tr 129-130, 133, 297-298, 299-300, 431). Although the release agreement required that plaintiff be given a copy of all sales to United States Plywood Corporation, none were supplied it (1 Tr 149; 2 Tr 128, 428).

Except for one occasion (which defendant promised not to repeat), plaintiff did not know that direct sales were being made to its own customers (Exh 18; 1 Tr 153-154; 2 Tr 129-130). Defendant, however, knew that this was plaintiff's customer (1 Tr 143, 146-147, 149; 2 Tr 129). Plaintiff protested when outside sales came to its attention. It objected orally to them (Smith Dep 14) and twice wrote to defendant, insisting that the contract would not work unless inquiries were referred to it, especially those from its own customers (Exhs 18, 19; 2 Tr 110-111, 114-115).

g. Plaintiff's costs of doing business were fixed, and commissions[24] it would have earned on direct sales made by defendant would have added to its net earnings, dollar for dollar (2 Tr 134-135, 313). They represented an absolute net loss to plaintiff resulting from defendant's direct sales.

The Trial Court's Procedure and Decisions

A.

On April 23, 1962, after the first trial, the trial judge rendered a memorandum decision in favor of plaintiff, and on May 16, 1962 the court entered findings of fact, conclusions of law and judgment in favor of plaintiff for $395,410.02 (R 59, 66). Thereafter, defendant moved for a new trial (R 67). Plaintiff moved to strike

24. In defendant's books they are consistently referred to as "commissions" (2 Tr 541-542).

the motion for failure to comply with the Federal Rules of Civil Procedure (R 72). On August 14, 1962, the trial judge issued a "memorandum of decision" sustaining the validity and enforceability of the contract (R 77). It held:

> "The Court is mindful of the importance of pretrial orders (See King v. Edward Co., 68 F. Supp. 1019 (1946)), and of plaintiff's objection to the consideration of issues beyond the terms thereof. However, without overruling such objection, we nevertheless state our conclusions on the merits of the issue of indefiniteness of price because it is in the plaintiff's favor.[25]
>
> "The option price to plaintiff is clearly stated in the contract (Par. 10) to be, as to plywood, the 'market price to jobbers' less 5% and an additional 2% for cash. The term 'market price to jobbers' is clearly defined and explained by example, in the contract. (See Definition (d)).
>
> "The option price, as to veneer, is likewise stated in Par. 10 to be the 'market price' less 5% and an additional 2% for cash." (R 80)
>
> "The Court is convinced, therefore, that under the terms of the contract and its practical interpretation by both parties, the option price for douglas fir plywood, the type of plywood in which the parties were dealing, was simply the 'market price' thereof to jobbers. less a further 5% and 2% discount to plaintiff—without reference to the so-called five plant formula set up for the contemplated, but never realized, manufacture of 'digger pine' plywood.
>
> "Even if we assume that the so-called five plant formula can be construed as applicable to plywood

25. In his second opinion, the trial judge held that the pretrial order was "sufficient" to present the issue (R 117). He did not amend the order.

other than 'digger pine' plywood, i.e., to fir plywood, we are of the opinion that such formula, considered in its relationship to the contract as a whole, was subordinate to the clear provisions of the contract (Par. 10; Definition (d); Par. 3, lines 3-4) that the option price was to be the market price to jobbers (which included a 5% functional discount) less a further 5% and 2%.

"That the five plant formula should be regarded as a mere guide or indication of such market price is clear. Apart from the improbability that parties would make a contemplated 5-10 year contract wholly dependent on the continued existence and price quotation of five particular plants, there is the significant circumstance, shown by the evidence, that, although one of the named mills was not publishing prices at the specified plant, and although the other four were either soon out of business or not publishing, the subject of a possible failure of price formula was never raised or discussed by the parties during five years of daily operations under their contract.

"In any event, there is no evidence whatsoever to support defendant's theory that the parties abandoned their contract early during their operations to deal on a day to day negotiation of the price of plywood. Neither party ever gave any such indication during nearly five years—until defendant attempted to repudiate the contract in November, 1960." (R 82-83; emphasis in the original)

On September 4, 1962 the court entered an order allowing a partial new trial limited to

"* * * the issue of breach and damages re so-called 'outside' sales, and as to the issue of damages resulting from any and all breaches or repudiation of the contract in question;" (R 89)

It denied defendant's motion for a new trial

> "* * * upon the issue of the validity and enforceability of the contract;" (R 89)

Plaintiff suggested that the question whether the five-mill formula was intended to apply to douglas fir plywood was material to the computation of its damages (R 96, 96A).

The partial new trial on these limited issues commenced on December 3, 1962. At the conclusion of the testimony, the trial judge announced that plaintiff had introduced evidence at the retrial respecting "the circumstances under which the contract was made", and he would therefore "have to" reconsider the excluded issue of its "certainty and validity" (2 Tr 708). This testimony was merely that (contrary to the judge's first opinion) the parties intended the five-mill formula to apply to douglas fir plywood (R 98-99).[26]

On January 31, 1963 the trial judge issued a memorandum of opinion (R 98) holding that

(a) The parties had for five years "waived" the five-mill formula and thereby "modified" the contract. Executory effect could not be given to the "waiver" under § 1698 of the California Civil Code.[27]

26. It did not, of course, relate at all to the alternative ground of the first decision, namely, that the formula was a subsidiary term of the contract.
27. "§ 1698. Written or Oral.—A contract in writing may be altered by a contract in writing, or by an executed oral agreement, and not otherwise."

(b) Despite his prior contrary finding (R 82-83), the five-mill formula was an "essential" term of the contract, and although the parties had performed the contract for five years without using it, their inability to apply it literally prevented any executory enforcement of the contract.

The issue which the trial judge treated as dispositive of the claim for lost future profits was not asserted in the answer (R 13) or the pretrial order which superseded the pleadings (R 28).[28]

(c) Defendant's outside sales did not constitute a breach of contract.

The court refused to rule on the question of damages.[29]

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28. Defendant's contentions in the pretrial order were:

"I.

"Defendant contends that said contract was, if any contract ever existed, abandoned and repudiated by the parties thereto immediately after its formation, and that this action is therefore barred by Section 337 of the Code of Civil Procedure of the State of California.

"II.

"Defendant contends that the purported contract involved is so indefinite and uncertain in its terms as to the amount of veneer or plywood plaintiff is or was required to supply orders to the defendant for, that it is not susceptible to specific performance or that upon its breach or repudiation by defendant that damages may not be awarded against defendant and in favor of plaintiff.

"III.

"Defendant contends that the purported contract involved did not nor does it now bind plaintiff to supply any orders on veneer or plywood, but said purported agreement leaves the supplying of said order to the will, want, wish or desire of plaintiff so that the purported agreement lacks mutuality of risk of obligation and remedy barring relief to plaintiffs [sic] against defendant by way of specific performance and/or damages in any sum or at all." (R 31-32)

29. The opinion stated that it would not do so except on plaintiff's application (R 122). Plaintiff made no application, but resisted defendant's improper proposed finding, which completely disregarded the trial court's opinion, that there was no damage (R 158, 160, see 125, 144).

B.

The memorandum of opinion of January 31, 1963 recites that the court's prior memorandum of decision of August 14, 1962 (on the motion for a new trial)

> "* * * is hereby referred to and made a part of this Memorandum except as it may be modified or supplemented herein." (R 98)

Defendant, as requested by the court (R 122), filed proposed findings and conclusions which were inconsistent with the court's opinion in critical respects[30] and in which findings and conclusions were improperly labeled and indiscriminately mixed together (R 150). Plaintiff filed a notice of its disapproval and formal objections to the court's memorandum of opinion and moved for reconsideration of the decision. It also filed objections to defendant's proposed findings and conclusions (R 123, 125, 136, 144).

On March 21, 1963 the court signed findings and conclusions and entered judgment in the form tendered

30. Three examples should be sufficient: (1) Proposed Findings VIII and XI and Conclusions IV and V (R 153, 154-156, 158-159) provided that the contract price was to be fixed under the five-mill formula, which was the "sole means" of doing so. The trial court's opinion, however, expressly and repeatedly held that the contract called for sales at the market price and that the formula was a contingent standard intended to be used only when market price could not otherwise be determined (R 82-83, 102, 110, 119-120); (2) Proposed Finding XIX and Conclusion X (R 158, 160) simply disregarded the court's ruling that it need not and would not decide the issue of damages (R 122) and purported to decide the question in defendant's favor; (3) Proposed Finding X respecting day-to-day dealings (R 154) was an attempt to preserve a theory of contract abandonment which the trial court expressly rejected in both of its opinions (R 83, 106-108).

by defendant (see R 160, 161) and entered a further order stating:

> "The Court adopts as its Findings of Fact and Conclusions of Law its memorandum opinion of February 1, 1963, as supplemented by the Findings of Fact and Conclusions of Law signed March 20, 1963, insofar as the latter are not inconsistent with the former. * * *" (R 149)

QUESTIONS PRESENTED

1. The Nature of the Contract

Was the contract a simple option to buy personal property, as the trial court held, or was it an exclusive sales distributorship agreement?

2. Executory Enforcement

a. Did the fact that the five-mill formula could not be literally applied to transactions between the parties render the entire contract incapable of executory enforcement?

b. Was the five-mill formula an essential term of the contract?

c. Did the parties make a practical construction of the contract, i. e., that the five-mill formula was only a subsidiary guide or barometer to market price, as distinguished from "waiving" the formula or "modifying" the contract with respect to it?

3. Outside Sales

Did defendant's outside sales to plaintiff's customers and others prior to repudiating the contract breach its implied obligations under the contract?

4. Procedure

a. Was the ground on which the trial court held that the contract was incapable of executory enforcement available to defendant under the pleadings, the pretrial order and the order for a partial retrial?

b. Did the trial court err in reversing its prior holding that the contract was valid and enforceable on the basis of evidence offered and received at the partial retrial on other issues and after expressly refusing to allow that question to be retried at all?

SPECIFICATIONS OF ERROR[31]

1. The trial court erred in finding or concluding that the contract created the relationship of optionee-buyer and optionor-seller, as distinguished from selling principal and sales agent, that it was drawn to avoid the latter relationship, and that it had none of the characteristics of an agency and all of the characteristics of a buyer and seller relationship (1 Op, R 78, 86-87; 2 Op, R 121-122).

31. "1 Op" means the court's memorandum of decision dated August 14, 1962; "2 Op" means its memorandum of opinion dated January 31, 1963. "Find" and "Concl" refer to the findings and conclusions prepared by defendant's counsel and adopted by the court "insofar as * * * [they] * * * are not inconsistent with" the second opinion (R 149).

The contract and the evidence established as a matter of law that this was an exclusive sales distributorship agreement, which contained elements of both sale and agency and imposed obligations on the parties peculiar to both relationships. The finding is clearly erroneous, and the conclusion is contrary to law.

2. The trial court erred in reversing its prior finding or conclusion that the five-mill formula was a subordinate contract provision which was subject to paragraph 10 of the contract, which provided that the option price was the market price to jobbers less 5%, 2%, and in holding that its said prior finding was only dictum in its first opinion (2 Op, R 99).

The contract and the evidence established as a matter of law that the prior finding was correct. The court's action was clearly erroneous and contrary to law.

3. The trial court erred in concluding that the five-mill formula was "comparable" to a sale at a valuation within the meaning of § 1730 of the California Civil Code (2 Op, R 100-101).

Under the contract, the formula was not dependent upon anybody's discretion or judgment but related only to an objective standard and § 1730 of the Code had no application as a matter of law. The conclusion is contrary to law.

4. The trial court erred in finding that market price is difficult, if not impossible, to determine in the plywood industry, and that the parties encountered great difficulty in performing the contract in the absence of the five-mill formula, because market price in general was not readily ascertainable under the conditions of their industry (2 Op, R 105, 115; Find XI, R 154).

The evidence established that the parties, individually and together, could and did determine market price consistently and without substantial difficulty for more than five years. The finding is clearly erroneous.

5. The trial court erred in finding that the parties anticipated that in the absence of the five-mill formula market price would be impossible or extremely difficult to ascertain (2 Op, R 111; Find XI, R 154).

There was no evidence to support the finding, which is clearly erroneous.

6. The trial court erred in finding or concluding that the five-mill formula was intended to be a definitive and binding provision for determining market price in those cases where the parties could not otherwise determine it (2 Op, R 110-111, 119-120); that to the extent that the parties could not otherwise determine the market price from available market information it was indispensable to the contract (2 Op, R 113); and that resort to it or insistence upon it at any time by either party would have left the parties without any enforceable contract at all (2 Op, R 115, 120).

The contract and the evidence established that the formula was no more than a guide to aid the parties in determining market price under the contract, that it was not essential to the contract, and that it did not have the meaning or legal effect given it by the trial court. The findings are clearly erroneous and the conclusions are contrary to law.

7. The trial court erred in finding or concluding that the parties impliedly agreed from time to time to disregard and waive the five-mill formula, and that the contract was modified as to executed transactions by their said mutual waiver and consent (2 Op, R 107-108, 114-115; Finds XII, XVI, R 156, 157).

The terms of the contract and the undisputed evidence established that the parties performed the contract without referring to the formula, as distinguished from "modifying" it or "waiving" its terms. The finding is clearly erroneous and the conclusion is contrary to law.

8. The trial court erred in finding or concluding that the price provisions of the contract were not ambiguous to the parties and that the doctrine of practical construction therefore could have no application to the case (2 Op, R 109, 110).

Paragraphs 3 and 10 of the contract were highly ambiguous, and the court so treated them in both of its opinions. This ambiguity rendered the doctrine of practical construction applicable to the case. The finding is clearly erroneous and the conclusion is contrary to law.

9. The trial court erred in finding or concluding that the parties did not make a practical construction of the contract as providing that the five-mill formula was merely a guide to assist them in determining market price and not a pricing standard (2 Op, R 112-113).

The contract and the evidence established that the parties did so. The finding is clearly erroneous and the conclusion is contrary to law.

10. The trial court erred in holding that plaintiff claimed the five-mill formula was not intended to be "binding" or "purposeful", and in concluding that it could apply the doctrine of practical construction only if it found that the formula was not intended by the parties to be "binding" or "purposeful" (2 Op, R 109, 112-114, 116).

Plaintiff made no such claims, and as a matter of law no such intent need be established; the conclusion is contrary to law.

11. The trial court erred in finding or concluding that the inference that the parties made a practical construction of the contract would be contrary to its clear terms and evidence of discussions at the time of its execution (2 Op, R 113) or that it would eliminate a clearly stated, important and purposeful provision of the contract (2 Op, R 114).

The contract and the evidence established that the parties made a practical construction of the contract. The finding is clearly erroneous, and the conclusion is contrary to law.

12. The trial court erred in finding or concluding that once defendant withdrew its implied consent, further dealings on a general market price basis became quite impractical and, except for constant litigation to resolve disagreements on market price, impossible (2 Op, R 116).

The evidence established that there was in fact no such "implied consent," nor was it ever "withdrawn"; market price never was or became incapable of ascertainment, and the matter, in case of disagreement, was subject to arbitration under the contract. The finding is clearly erroneous and the conclusion is contrary to law. It is also inconsistent with the court's repeated finding that the parties intended to deal at the general market price.

13. The trial court erred in finding or concluding that defendant "elected" to stand upon the contract as written and assert nonenforceability because of the failure of the five-mill formula and was entitled to do so (2 Op, R 116, 120; Find XVI, R 157).

There was no evidence whatever to support the finding, and it was clearly erroneous. Defendant never sought to apply the formula or require its application to any transaction, nor did it ever resort to the arbitration clause of the contract. The conclusion is contrary to law.

14. The trial court erred in concluding that plaintiff had the burden of proof of the proper construction of the contract as shown by the conduct of the parties and in failing to hold that defendant had the burden of proof of facts establishing any asserted discharge of the contract by impossibility or frustration (2 Op, R 117).

The isssue of impossibility or frustration of the contract was a matter of defense to be pleaded and proved by defendant, which did neither; nor did defendant assert it in the pretrial order. The conclusion is contrary to law.

15. The trial court erred and acted arbitrarily and abused its discretion in setting aside the limitation in the order granting a partial new trial concerning the issues to be retried (2 Op, R 117; Concl II, R 158).

16. The trial court erred and acted arbitrarily and abused its discretion in holding that neither party had been deprived of a full opportunity to present all available evidence on all of the issues (2 Op, R 117).

17. The trial court erred and acted arbitrarily and abused its discretion in holding that the pretrial order sufficiently presented the issue of the meaning and effect of the contract as it related to the five-mill formula (2 Op, R 117).

18. The trial court erred in finding that plaintiff at all times knew the amount of defendant's production, and that defendant never misled plaintiff or withheld information concerning the amount of plywood being produced, and that plaintiff knew that any unordered production was being sold by defendant to others (2 Op, R 118, 119; Find XIV, R 156).

The evidence established that plaintiff did not know about the outside sales, particularly the great bulk of them being made to its own customers, and that defendant concealed them from plaintiff. The finding is clearly erroneous.

19. The trial court erred in finding or concluding that defendant had an unqualified and unrestricted right to sell any portion of its production which plaintiff could not take during any month on the open market through other brokers or through its own sales organization (2 Op, R 118; Find II, XV, R 151, 156).

Defendant's right, as a matter of fact and law, did not extend to outside sales made by defendant's sales organization operating without advising plaintiff and soliciting plaintiff's customers in competition with plaintiff. Such conduct subverted the contract and breached defendant's obligations thereunder. The finding is clearly erroneous, and the conclusion is contrary to law.

20. The trial court erred in finding or concluding that defendant was not obligated under the contract to refer prospective buyers to plaintiff before making outside sales, including those who were known by it to be plaintiff's customers (2 Op, R 120).

Such obligation was necessarily implied under the contract and the relationship of the parties as a matter of law. The finding is clearly erroneous, and the conclusion is contrary to law.

21. The trial court erred in finding that plaintiff did not prove that defendant's quoted mill prices, at times when the parties could not agree on market price, were above the market price, and that defendant had offered evidence that its quoted prices were not above the market price at such times (2 Op, R 120; Find XVIII, R 157).

The evidence established that defendant regularly insisted on a price which was above the market price as defined and understood by the parties; that plaintiff complained of this to defendant; and that it prevented plaintiff from selling defendant's production. The finding was clearly erroneous.

22. The trial court erred in finding or concluding that plaintiff under the contract could fill orders which defendant might refer to it from other mills, or that it may have done so under the name of Plywood Veneer Sales Co., and that defendant was therefore compelled to make outside sales without referring them to plaintiff in order to stay in business (2 Op, R 121).

The contract and the evidence established that plaintiff did not do so, and that such acts would have breached its duties under the contract. The finding is clearly erroneous, and the conclusion is contrary to law. No such charge was made by defendant.

23. The trial court erred in finding that defendant did not deceive plaintiff with respect to the volume of its sales to United States Plywood Corporation (2 Op, R 121).

The evidence established that defendant did so, and that it failed to furnish plaintiff with information about those sales, as it had promised. The finding is clearly erroneous.

24. The trial court erred in finding or concluding that the implied obligations of good faith and fair dealing contained in all contracts, including exclusive distributorship agreements, were not applicable to the relationship created by this contract (2 Op, R 121-122) and that there was no evidence of a breach by defendant of such implied obligations (2 Op, R 122; Find XVI, R 157).

This was not a proper finding; the contract and the evidence established as a matter of law that this was an exclusive distributorship agreement which placed defendant under such implied obligations. The finding is clearly erroneous, and the conclusion is contrary to law.

25. The trial court erred in finding that defendant's repudiation of the contract and refusal to accept further orders did not constitute a breach of contract (Find V, R 152).

This is not a proper finding; it is contrary to the evidence and the law and is clearly erroneous.

26. The trial court erred in finding and concluding that the parties intended and that the agreement provided that the option price plaintiff was to pay defendant for plywood was to be fixed by a determination of market price under the provisions of the five-mill formula in paragraph 3 and that the five-mill formula was the manner by which the parties agreed to fix price and constituted an outside or objective means of determining market price, and that it was intended by the parties, at the time said agreement was executed, to be the sole and objective binding means of fixing price under the agreement (Find VIII, R 153; Concls IV, V, R 158, 159).

This is not a proper finding; it is contrary to the express holding of the trial court in its second opinion and Finding IX and was contained in findings which were adopted by the trial judge only insofar as they did not conflict with the second opinion; it is clearly erroneous, and the conclusions are contrary to law.

27. The trial court erred in finding that the failure of the five-mill formula left the parties without any means of determining market price binding on either or both and that thereafter there was no obligation upon plaintiff to buy and none upon defendant to sell at a price that was not mutually acceptable, and the parties so construed their day-to-day dealings (Find X, R 154).

This is not a proper finding; it is contrary to the express holding of the trial court in its second opinion and was contained in findings which were adopted by the trial judge only insofar as they did not conflict with the second opinion; it is clearly erroneous and is merely an effort to preserve defendant's theory of abandonment which the trial court expressly rejected.

28. The trial court erred in finding that the parties made a "subjective evaluation" of market price from other sources (Find XI, R 154).

The evidence established that the parties determined market price by reference to external, objective sources. The finding is clearly erroneous and is immaterial to any issue in the case.

29. The trial court erred in finding that in view of the unworkability of the five-mill formula, the parties had no objective standard of price determination whereby a binding price could be dictated in those cases where they could not agree on the current market price (Find XI, R 154).

This is not a proper finding; it is immaterial to any issue in the case, because no such standard was essential to the validity and enforceability of the contract. The finding is clearly erroneous, because the market price established a workable objective standard.

30. The trial court erred in finding that the five-mill formula was not a mere guide for fixing price, but constituted an essential provision of the written contract (Find XI, R 156).

This is not a proper finding. The contract and the evidence established that it was a mere contingent guide to the market price and was not an essential or important provision of the contract. It is clearly erroneous.

31. The trial court erred in finding that defendant's repudiation of the contract was not in violation of the contract, because the contract had already become unenforceable as to executory portions thereof by reason of the failure of the "price fixing formula" (Find XIII, R 156; see R 117).

This is not a proper finding and is clearly erroneous.

32. The trial court erred in finding and concluding that defendant's outside sales did not violate the contract (Find XV, R 156; Concl VIII, R 159).

This is not a proper finding and is clearly erroneous and the conclusion is contrary to law. The outside sales constituted a flagrant breach of defendant's duties under the contract.

33. The trial court erred in finding that defendant performed any and all obligations and duties under the contract prior to its repudiation thereof and did not breach the contract during said period, because said contract became unenforceable as to the executory provisions thereof upon the failure of the price fixing formula (Find XVII, R 157).

This is not a proper finding and is clearly erroneous.

34. The trial court erred in entering a formal finding and conclusion tendered by defendant that plaintiff had not been damaged by defendant's acts (Find XIX, R 158; Concl X, R 160).

This finding and conclusion are contrary to the terms of the trial court's second opinion and were contained in findings which were adopted by the trial judge only insofar as they did not conflict with the second opinion; the finding is clearly erroneous and the conclusion is contrary to law.

35. The trial court erred in concluding that shortly after its execution, the contract became unenforceable because of the failure of the five-mill formula, thereby rendering it uncertain and indefinite in one of its essential terms (Concl VI, R 159; see also R 117).

This conclusion is contrary to the evidence and the law, which established that the five-mill formula was not an essential term of the contract and the contract did not become uncertain or indefinite, either in fact or in law.

36. The trial court erred in concluding that the contract was modified by the parties as to executed transactions by mutually disregarding the five-mill formula in cases where they agreed on market price; that their conduct amounted to a mutual waiver of the formula as to executed transactions only; and that said modification was ineffective as to executory portions of the contract under § 1698 of the California Civil Code (Concl. VII, R 159).

This conclusion was contrary to the undisputed evidence and the law, which established that the parties performed the contract, without modification (until defendant wrongfully repudiated it), and did not waive any of its terms. Furthermore, the issue had not been tendered by the pretrial order and was excluded from the retrial.

37. The trial court erred in concluding that plaintiff had not sustained its burden of proving an enforceable contract (Concl IX, R 159).

This conclusion was contrary to the undisputed evidence and the law, which required that defendant plead and prove defenses of frustration or impossibility.

38. The trial court erred and acted arbitrarily and abused its discretion in adopting its second opinion, which included by reference its prior inconsistent opinion, as its findings and conclusions, as supplemented by findings and conclusions prepared and tendered by defendant, except insofar as the latter were not inconsistent with its opinion (R 149).

39. The trial court erred in failing to find that defendant breached the contract, causing plaintiff heavy damage; and in failing to determine and enter judgment for the amount of damages sustained by plaintiff.

SUMMARY OF ARGUMENT

1. The trial court erroneously concluded that the contract was merely an option for the purchase and sale of personal property, rather than an exclusive sales distributorship agreement. As a matter of fact and law, this was an integrated plant development and exclusive market representation program in which plaintiff carried the plant investment and the credit risk in the field, while defendant, which had the desire but not the ability to enter the plywood business, furnished the product to be sold.

2. This patent and serious error led to two others:

a. Contract provisions relating to the price of the goods assumed excessive importance. Thus, the trial judge erroneously held that even though the contract was one for sales at market price, the contingent five-mill formula which was designed to resolve differences about that price was "essential" to the contract, and when it could not be literally applied the entire agreement became incapable of executory enforcement.

The judge failed to recognize that in such agreements, pricing provisions, as between the parties, are subsidiary, because the price is being passed on to the "buyer's" customer and is primarily a measure of the "buyer's" commission. Moreover, use of the formula could not result in sales at prices higher than the general market price which the record shows the parties could and did ascertain in performing the contract. The parties paid no attention to the formula, and its asserted failure could not and did not discharge the contract.

b. The trial judge erroneously rejected plaintiff's contention that the parties were subject to mutual implied obligations of good faith and fair dealing contained in all contracts and which are essential to the operation of a sales distributorship agreement. Defendant's solicitation of a large volume of undisclosed direct outside sales at reduced prices to third persons, including plaintiff's customers, during the life of the contract was a flagrant and deliberate breach of these duties.

3. The trial court incorrectly held that the contract was not capable of executory enforcement, because the parties orally "waived" the "essential" five-mill formula, thereby "modifying" the contract as to executed transactions only. In fact, the parties, who totally ignored it, made a practical construction of the contract by which the five-mill formula was no more than a guide to be used, if possible, to assist them in cases when they could not otherwise determine the general market price at which they dealt. This was an application and construction of the contract, not a waiver or modification of its terms, and in fact no one ever "insisted on" or even referred to the formula.

4. The record, as well as the contract itself, established that the five-mill formula was not an essential term of the contract, but was only an alternative guide to assist the parties in determining the market price.

5. Defendant's outside sales constituted a flagrant breach of its implied contractual obligations which were essential to the operation of the contract and amounted to a successfully executed plan to destroy the contract and deprive plaintiff of its benefits.

6. The trial judge's findings, by reason of the cross references to and from the first opinion, the second opinion, the inconsistent findings prepared by defendant and signed by the court, and their conditional adoption by the trial judge in his order of March 21, 1963 constituted a prejudicial disregard of orderly judicial procedures and created serious confusion in the record of the case. Moreover, the trial court acted improperly and prejudicially in basing its decision on the asserted failure of the five-mill formula. This issue was not raised in the pretrial order; it was, however, resolved by the trial judge in plaintiff's favor in his first opinion and was specifically excluded from the issues to be retried; the trial judge reversed his prior ruling solely on the basis of evidence offered during the retrial on other issues which did not relate to grounds on which his first ruling had been based. The procedure was arbitrary and unreasonable.

7. The case should be remanded with instructions to compute and enter judgment for the amount of plaintiff's damages.

ARGUMENT

Introduction

The trial court concluded that the parties' performance of the contract for five years without reference to the five-mill formula, which had been incapable of literal application from the outset, constituted an oral "waiver" and "modification" of one of its essential terms. Since the "waiver" and "modification" could not be given executory enforcement under § 1698 of the California Civil Code, the entire contract was subject to repudiation by defendant, because it was unworkable without the formula.

The following facts, which the court found, were apparently not thought to bear upon this unjust result:

1. In its first opinion of August 14, 1962 the trial court found that

a. The five-mill formula was a mere guide or indication of the general market price, which was the option price and was subordinate to the market price provisions of paragraph 10 (1 Op, R 82-83);[32] and

b. An option to buy at market price to jobbers less 5%, 5%, 2% is not indefinite or inadequate as an objective standard for pricing, and such market price is legally ascertainable (1 Op, R 84).[33]

2. In its second opinion of January 31, 1963 the trial court correctly found and concluded that

a. The parties intended that sales should be made at the current market price. The five-mill formula was to have no application except when they could not otherwise determine it (2 Op, R 102, 110, 119-120).

b. During nearly five years of daily operation under

32. This holding was reversed in the second opinion.

33. The trial judge did not hold in his second opinion that market price is not legally ascertainable, but only that it is "difficult" to determine (see R 105). He also held that a contract for sales at market price is legally effective (R 107).

the contract before any controversy arose, under industry conditions and practices presumably known to the parties since the execution of the contract, neither party ever referred to the five-mill formula or its asserted unworkability, or to the effect of such "unworkability" upon the contract, or ever sought to apply the formula, and the parties at all times proceeded to ascertain market price by reference to general market information (2 Op, R 102-103, 107, 115; Find XI, R 154-156).

c. The original contract was never abandoned, nor was any substituted arrangement entered into; on the contrary, the parties acted under it at all times prior to its repudiation by defendant.[34] During this period, plaintiff renewed the contract, and the parties negotiated for its termination, all without any suggestion that it was not operating successfully. The failure "from time to time" to agree on the market price

> "* * * did not arise from bargaining for a new, mutually agreeable price under a new day to day arrangement, i.e., under a new substituted oral contract, but only from an inability of the parties to agree upon what the 'market price' for plywood happened to be at particular times." (2 Op, R 106-107)

d. Under the contract (Par 10) the parties dealt at general market price (2 Op, R 102, 110, 119-120), but

34. This confirmed its holding in the first opinion (1 Op, R 83).

defendant insisted that prices be quoted near the top of the market spread (2 Op, R 104).[35]

e. When the parties could not agree upon the market price, plaintiff refrained from exercising its option (2 Op, R 105; Find XI, R 154-156).

The court's conclusion also ignored the business context in which the parties operated. The "price" was largely a matter of indifference to plaintiff, except as it might promote or hinder sales, because plaintiff did not buy for its own warehousing or use but only for a specific resale to an identified customer at a predetermined price. The price was, of course, important to defendant. However, defendant's true concern, as shown by the evidence, was to determine the highest price at which the plywood could be sold, and that price was determined by the general market, not by the parties. In this situation, the formula could not possibly be anything more than a guide to the market price at which the parties had to and did operate.[36]

While the formula might assist to resolve an occasional difference of opinion over market price, it could never increase that price to defendant's benefit. It could only produce sales if it resulted in a price equal to or less than the actual market price at any particular

35. The evidence was undisputed that this lost the parties many sales, since prospective customers could always get a lower price elsewhere.

36. That this was its function is shown by the testimony of both parties that the named mills were selected because they were, by reason of their location and production, those closest and most similar to defendant's mill.

time. It could be computed only at irregular intervals (see par 3) and would not reflect current changes in the market. It is therefore not surprising that the parties ignored it altogether.

I.

The contract was not a mere option to purchase personal property, but was an exclusive sales distributorship agreement.

1. The trial court erroneously construed the written contract to be a mere option for the purchase and sale of personal property.

Sales distributorship agreements are frequently drawn in the form of contracts of purchase and sale.[37] This, however, does not adequately define such contracts or their consequences.

In *Mantell v. International Plastic Harmonica Corp.*, (1947) 141 NJ Eq 379, 55 Atl 2d 250 the court considered a sales contract for the distribution of a new product which provided that the price should be no higher than that charged any other distributor. No other distributor was ever appointed. The defendant-manufacturer made sales in plaintiff's territory, contending that the contract had failed, because the contract price could not be determined. The court rejected this contention, saying:

37. The usual retail franchise is nearly always of this kind. There are, of course, alternative forms such as agreements of consignment, brokerage and factorage.

"This type of contract is a comparatively recent device to meet modern needs in the marketing and distribution of goods on a nationwide or regional scale. In the very nature of the exclusive sales and distribution contract, it is not usually practicable to fix prices and the quantum of goods sold; and the rules of certainty and definiteness which govern the ordinary contract of sale have no application. Unlike a pure contract of purchase and sale, agreements of this class embody mutual promises and obligations with sufficiently definite standards by which performance can be tested. The grant of the exclusive franchise is a consideration for the grantee's obligation to establish and develop a marker [sic] for the sale and distribution of the product in the area covered by the monopoly. The character of the contractual arrangement is such as to preclude explicitness as to quantity and prices. This is especially so where, as here, the product is new and untried and its potential worth and market value and the cost of manufacture and distribution are unknown quantities. Such contracts have the requisite mutual assent and consideration. They are not comparable to the ordinary executory agreement to buy and sell goods. * * *

* * * * *

"Contracts of this category are to be given a practical interpretation that will effectuate and not defeat the common intention in an area of conventional action that, due to unpredictable market conditions, production factors, and so on, ordinarily does not permit of great certainty and definiteness in the particulars mentioned." (55 Atl 2d 250 at 256-257)[38]

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38. See also *Bendix Home Appliances, Inc. v. Radio Accessories Co.*, (CCA 8 1942) 129 F2d 177 at 181; *Marrinan Medical Supply, Inc. v. Ft. Dodge Serum Co.*, (CCA 8 1931) 47 F2d 458 at 460-461; *Ken-Rad Corporation v. R. C. Bohannan, Inc.*, (CCA 6 1935) 80 F2d 251 at 253; *Champion Spark Plug Co. v. Automobile Sundries Co.*, (CCA 2 1921) 273 Fed 74 at 80; *Stone v. Krylon, Inc.*, (DC ED Pa 1956) 141 F Supp 785.

This is the law of California. In *J. C. Millett Co. v. Park & Tilford Distillers Corp.*, (DC ND Cal 1954) 123 F Supp 484 at 492 the court defined the obligations of the parties on termination of a distributorship agreement under both sales and agency principles (at 492-493), saying:

> "The distributorship contract in the case at bar is more than a contract of employment or agency. It is also a contract of sale. On the other hand, it is more than a mere sales contract. It partakes of the substantial aspects of both."[39]

2. The present agreement (under which plaintiff was granted an "exclusive option" for 95% of defendant's production) was one for an exclusive distributorship. It pre-empted nearly all of defendant's output, subject only to paragraph 6, which permitted sales by defendant, directly or through brokers, of excess production subordinate to the option.[40] Plaintiff made substantial loans to defendant for its mill and to support its operation (Exh 49). The reservation by defendant of 5% of its production for local sales could not support other representation; nor was there any dependable "excess" production which could do so (Exh 17, pp 2-3). The contract was clearly stated to be and was one for exclusive sales representation, and any other construction

39. See also *Hunt Foods, Inc., v. Phillips*, (CA 9 1957) 248 F2d 23 at 28-29 (agency principles applied to determine termination rights); *Caspary v. Moore*, (1937) 21 Cal App 2d 694, 70 P2d 224 at 226; *San Francisco Brewing Corporation v. Bowman*, (1959) 52 Cal 2d 607, 343 P2d 1 at 5-6; *Kelly-Springfield Tire Co. v. Bobo*, (CCA 9 1925) 4 F2d 71 at 72.

40. One of defendant's complaints was that it could not make firm or continuing arrangements with others, because they would conflict with plaintiff's option (Schwab Dep 16).

would utterly disregard and destroy its essential purposes.[41]

II.

The trial judge's failure to recognize the true nature of the contract led to a failure to recognize and enforce its essential obligations.

The trial judge erroneously held that the contract was a mere option. His failure to recognize its true nature as an exclusive distributorship agreement led to two other fundamental errors:

a. He failed to recognize and enforce implied obligations which characterize all contracts and which are critical to the operation of distributorship contracts, and which required defendant in this case to perform the contract honestly and in good faith and do nothing which would destroy the value of the contract to either party.[42]

These obligations did not rest on defendant alone. Plaintiff was also obligated by express[43] and implied[44]

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41. Agreements for exclusive distribution were found by implication in *Rudd-Melikian, Inc. v. Merritt,* (CA 6 1960) 282 F2d 924 at 927-929; *White Co. v. W. P. Farley Co.,* (1927) 219 Ky 66, 292 SW 472; *Navy Gas & Supply Co. v. Schoech,* (1940) 105 Colo 374, 98 P2d 860 at 861-862; *Mantell v. International Plastic Harmonica Corp.,* supra, (1947) 141 NJ Eq 379, 55 Atl 2d 250 at 256.

42. See post 70.

43. Paragraph 3 provides:

"SECOND PARTY [plaintiff], so far as possible, agrees to provide the FIRST PARTY [defendant] with orders for 95% of the output of its veneer or plywood. * * *"

See also paragraph 5.

44. *American Distributing Co. v. Hayes Wheel Co.,* (DC ED Mich 1918) 250 Fed 109 at 115, rev'd on other grounds (CCA 6 1919) 257 Fed 881; *W. G. Taylor Co. v. Bannerman,* (1904) 120 Wisc 189, 97 NW 918 at 919.

terms of the contract to use its best efforts in good faith to sell 95% of defendant's production, to assume the resulting credit risks and to finance the acquisition and installation of new equipment. There is no suggestion that plaintiff did not perform these obligations completely and in good faith.

b. The trial judge placed unwarranted and literal emphasis[45] on the contingent pricing clause of paragraph 3 of the contract and erroneously held that the five-mill formula was "essential" to its operation. However, under the contract orders were placed only for plaintiff's customers who had previously agreed to pay prices quoted by the parties. Pricing clauses in such a contract are designed to set a competitive price to the ultimate, not the immediate customer, who is not a party to the contract and will therefore require that the quoted price meet competition in the open market. It follows that they are, as first found by the trial judge (R 82-83), subordinate provisions, not essential to the obligations of the contract.

In *Laveson v. Warner Mfg. Corp.*, (DC NJ 1953) 117 F Supp 124 plaintiffs were exclusive distributors of defendant's products under an agreement which obligated defendant to supply such quantities as plaintiffs should "from time to time require, at prices to be agreed

45. See *Mantell v. International Plastic Harmonica Corp.*, supra, (1947) 141 NJ Eq 379, 55 Atl 2d 250 at 255; *West Caldwell v. Caldwell*, (1958) 26 NJ 9, 138 Atl 2d 402 at 410.

upon." Defendants' motions for summary judgment or dismissal were denied. The court said:

> "* * * Exclusive sales agency contracts, such as the present, differ from ordinary sales contracts in many respects, so that the normal contract rule cannot be blindly applied thereto. There are these important differences, as to the element of price, between ordinary sales contracts and sales agency contracts. In ordinary sales contracts, the price is not passed on to a third party, but is ultimately borne by the purchaser and paid by him to the seller. Hence the fixing of this price is essential to the contract. It is the very point in which the parties are primarily interested. Not so in the case of a sales agency contract. For there, both the principal and the sales agent pass on the agency price, in question, to the third party purchaser, to be paid by him, plus the agent's commission, as the final purchase price. For this reason the agency price is not so crucial to the parties in the sales agency contract. Furthermore, what the parties to a sales agency contract are interested in, is not a good price on a single sale, as in the case of an ordinary sales contract, so much as in a substantial volume of sales, each of which will give a fair profit to both the parties to the sales agency contract. Again, both such parties realize, that to fix an unreasonably high price will lessen this major desideratum of a volume of sales. Finally, both parties to a sales agency contract realize that the agency price, which, as one element of the ultimate sales price, will help both the principal and his sales agent attain this desideratum of sales volume, cannot be determined at first, but only as the result of actual experience. For all these reasons, *the price element in a sales agency contract differs from such element in an ordinary sales contract, and is not of the essence in the former, as it is in the latter.*[46] Further, it cannot be finally fixed in a sales

46. See also *Mantell v. International Plastic Harmonica Corp.*, supra, (1947) 141 NJ Eq 379, 55 Atl 2d 250 at 256.

> agency contract entered into at the very beginning of the sales agency. * * *" (at 125-126; emphasis supplied)

The court further noted that the controversy (as here)

> "* * * apparently is not caused by any question of price. Warner is attempting to escape the binding force of an agreement which it entered into with the full intention of making a contract. Warner's attempted justification is the legal technicality that the provisions of the agreement as to price are too vague to permit the existence of a contract. Nevertheless, this allegedly 'vague' provision has been satisfactorily applied by the parties for a period of three years. It is the duty of the Court to effectuate the intentions of business men, not to block them, and that is the intent of the above provision of the Uniform Sales Act." (at 127)[47]

In *Willred Company v. Westmoreland Metal Mfg. Co.*, (DC ED Pa 1959) 200 F Supp 55 at 57 *Laveson* was followed by Judge Kilpatrick, who said:

> "The defendant's first contention would have more force if the contract here was an ordinary contract for the sale of goods. However, as pointed out in Laveson v. Warner Mfg. Corp., * * * , there are important differences, particularly as to the element of price, between ordinary contracts of sale and sales agency, or distributorship, contracts. In the latter the parties are primarily interested not in what is to

47. See also *Los Angeles Coin-O-Matic Laundries v. Harow*, (1961) 15 Cal Rptr 693 at 697, 195 Cal App 2d 324 and *Patty v. Berryman*, (1950) 95 Cal App 2d 159, 212 P2d 937, distinguishing the position of a middleman-purchaser under California law.

be obtained in a single transaction but in a substantial volume of sales in the future with changing conditions to be met. I do not think that the contract in this case is so indefinite and uncertain as to be unenforceable as a matter of law. As a matter of fact there never was any dispute which could be attributed to any indefiniteness of terms between the parties, who apparently were perfectly able to conduct their business under it. The breach alleged is a breach of the exclusive feature as to which particular term there could be no question of indefiniteness."

III.

The parties made a practical construction of the contract as providing that the formula was no more than a guide to assist them in determining the market price to be quoted third persons. They did not "modify" the contract or "waive" the formula.

Under § 1698 of the California Civil Code,[48] an oral modification of a written agreement cannot be given executory effect.

In his second opinion, the trial judge rejected the contention that the parties had made a practical construction of the contract with respect to the five-mill formula and held that it had been waived (or the contract modified) for five years, but that when defendant insisted upon its application[49] the contract became un-

48. "§ 1698. *Written or Oral.* — A contract in writing may be altered by a contract in writing, or by an executed oral agreement, and not otherwise."
49. There was no evidence at all that defendant did so.

workable and could not be further performed (R 115-116). Section 1698 therefore prevented executory enforcement. The trial judge also held that before the doctrine of practical construction could apply under California law, plaintiff had to prove that the formula "was never intended to have any binding effect upon the parties" and even if the evidence "upon this issue of construction by conduct" were equally balanced, defendant would win (R 116-117). He held that paragraphs 3 and 10 of the contract were not ambiguous and that plaintiff sought, by a process of contract construction, to "eliminate" paragraph 3 as a "meaningful" provision.

The analysis was faulty. The question, under California law, is not whether the parties intended the five-mill formula to be "binding"; it is not whether they meant what they said, but what they meant, and their consistent conduct over a period of five years, in good times and bad and before any dispute arose, is the most convincing evidence of that intent. In view of the manner in which they performed the contract and the provisions of paragraph 10, the meaning and application of paragraph 3 was highly ambiguous. Their conduct, however, established what it meant to them—that it was no more than a contingent and alternative aid to determine market price. The parties understood, as the trial judge could not, its limited and subordinate function. There is simply no evidence that they found the contract (as they understood it) impossible or difficult to perform or that they ever intended an inability to give the formula literal effect (which was constant throughout the life of the contract) to have any bearing at all on the enforceability of the option.

The trial judge first accepted this position. In his first opinion, he found:

> "Even if we assume that the so-called five plant formula can be construed as applicable to plywood other than 'digger pine' plywood, i.e., to fir plywood, we are of the opinion that such formula, considered in its relationship to the contract as a whole, was subordinate to the clear provisions of the contract (Par. 10; Definition (d); Par. 3, lines 3-4) that the option price was to be the market price to <u>jobbers</u> (which included a 5% functional discount) less a further 5% and 2%.
>
> "That the five plant formula should be regarded as a mere guide or indication of such market price is clear. Apart from the improbability that parties would make a contemplated 5-10 year contract wholly dependent on the continued existence and price quotation of five particular plants, there is the significant circumstance, shown by the evidence, that, although one of the named mills was not publishing prices at the specified plant, and although the other four were either soon out of business or not publishing, the subject of a possible failure of price formula was never raised or discussed by the parties during five years of daily operations under their contract." (R 82-83; emphasis in the original)

The harsh rule of § 1698 has been consistently qualified in cases where the ultimate question is whether the parties amended their contract or performed it according to their understanding of what it meant. In *Bohman v. Berg*, (1960) 54 Cal 2d 787, 8 Cal Rptr 441 at 446-447, 356 P2d 185, the meaning of an uncertain agreement for labor and materials was established from the parties' conduct in performing it before any controversy arose. The court said:

> "This rule is in accord with the cardinal rule of construction that when a contract is ambiguous or uncertain the practical construction placed upon it by the parties before any controversy arises as to its meaning affords one of the most reliable means of determining the intent of the parties. Jackson v. First Nat. Bank & Trust Co. of La Porte, supra, 57 N.E.2d 946, 947. As was said in Mitau v. Roddan, 149 Cal. 1, 14, 84 P. 145, 150, 6 L.R.A., N.S., 275: '* * * [I]n all cases where the terms of their contract, or the language they employ, raises a question of doubtful construction, and it appears that the parties themselves have practically interpreted their contract, the courts will follow that practical construction. It is to be assumed that parties to a contract best know what was meant by its terms, and are the least liable to be mistaken as to its intention; that each party is alert to his own interests, and to insistence on his rights, and that whatever is done by the parties contemporaneously with the execution of the contract is done under its terms as they understood and intended it should be. Parties are far less liable to have been mistaken as to the intention of their contract during the period while harmonious and practical construction reflects that intention, than they are when subsequent differences have impelled them to resort to law * * *. The law,

however, recognizes the practical construction of a contract as the best evidence of what was intended by its provisions.' * * *.

"When the parties perform without objection under a contract the terms of which appear to be indefinite, they have indicated that its terms were sufficiently certain so that they, at least, could perform it. The conduct of the plaintiff in constructing and installing the items enumerated in the agreement of April 19th indicates that in his mind the contract was not too indefinite to be performed. * * *"[50]

In *Crestview Cemetery Association v. Dieden,* (1960) 54 Cal 2d 744, 8 Cal Rptr 427, 356 P2d 171 the question was whether an attorney's contract for services contemplated that he should merely secure a zone change or was responsible for ultimate approval of a cemetery location. The court, looking to the conduct of the parties, held that it is not what the words of the agreement mean to the court, but what they mean to the parties which is controlling (at 176). Justice Peters said:

"Appellants correctly claim that this doctrine of practical construction can only be applied when the contract is ambiguous, and cannot be used when the contract is unambiguous. That is undoubtedly a correct general statement of the law. * * * But the question involved in such cases is ambiguous to whom? Words frequently mean different things to different people. *Here the contracting parties demonstrated by their actions that they knew what the*

50. The court cited both *Mantell* and *Laveson* with approval, saying: "* * * the protection of a binding contract is not afforded merely to common and ordinary projects * * *." (at 447)

words meant and were intended to mean. Thus, even if it be assumed that the words standing alone might mean one thing to the members of this court, where the parties have demonstrated by their actions and performance that to them the contract meant something quite different, the meaning and intent of the parties should be enforced. In such a situation the parties by their actions have created the 'ambiguity' required to bring the rule into operation. If this were not the rule the courts would be enforcing one contract when both parties have demonstrated that they meant and intended the contract to be quite different." (356 P2d at 177-178; emphasis supplied)

See also *Mitau v. Roddan*, (1906) 149 Cal 1, 84 Pac 145 at 150:

"* * * This was a practical construction placed upon the contract by the parties themselves, which renders it immaterial to consider what might be the literal construction of its terms. Parties to a contract have a right to place such an interpretation upon its terms as they see fit, even when such an interpretation is apparently contrary to the ordinary meaning of its provisions. * * *"

In *Universal Sales Corporation, Ltd. v. California Press Mfg. Co.*, (1942) 20 Cal 2d 751, 128 P2d 665 at 672 the court said:

"* * * Also applicable here is the familiar rule that when a contract is ambiguous, a construction given to it by the acts and conduct of the parties with knowledge of its terms, before any controversy has arisen as to its meaning, is entitled to great

> weight, and will, when reasonable, be adopted and enforced by the court. * * * The reason underlying the rule is that it is the duty of the court to give effect to the intention of the parties where it is not wholly at variance with the correct legal interpretation of the terms of the contract, and a practical construction placed by the parties upon the instrument is the best evidence of their intention. * * *"

In this case, there was no evidence that the parties waived the formula or modified the contract — the evidence showed only that they performed it according to their understanding of its terms.

Plaintiff's failure to enforce its option by litigation when there was difficulty in determining the market price is not inconsistent with the construction which the parties gave to their contract. The contract was one both parties had to live with cooperatively for many years. It required good faith and continuing mutual efforts on both sides, and the failure to exercise the option in these cases was well within plaintiff's rights. There were, therefore, compelling business reasons for plaintiff's policy. It is significant that neither the validity of the option nor the formula itself was ever, in the course of any of these disagreements, mentioned or referred to.

The parties did not "waive" the five-mill formula or "modify" the contract. They made a practical construction of the entire contract in light of their business and its actual operation. The only "waiver" was by the plaintiff, who did not insist on its view of the market price when disagreements arose, but merely refrained from exercising its option.

The court's reliance on the burden of proof was also mistaken. The question of the meaning of the contract as shown by the conduct of the parties related only to its ultimate holding that the contract became impossible of performance or was frustrated when defendant repudiated it. These were defenses as to which defendant, not plaintiff, had the burden of proof. *Gold v. Salem Lutheran Home Association (etc.)*, (1960) 53 Cal 2d 289, 1 Cal Rptr 343, 347 P2d 687 (frustration); *Hensler v. City of Los Angeles*, (1954) 124 Cal App 2d 71, 268 P2d 12 at 21 (impossibility).

Furthermore, there was no issue with respect to whether the five-mill formula was intended to be "binding". The issue was what paragraph 3 meant to the parties, and the undisputed testimony and the evidence of their conduct for five years proved its meaning *to them*. The court erred in holding that plaintiff had failed to sustain a nonexistent burden of proof with respect to a nonexistent issue.

IV.

The five-mill formula was not an essential term of the contract, and the parties' inability to give it literal application did not discharge them from the duty of further performance.

The record showed conclusively that the formula was not an "essential" term of the contract.

1. The contract by its nature was one in which price clauses are of subsidiary importance, because its operation is basically controlled by the market (supra 55-58).

2. As a matter of contractual intent, it is inconceivable that the parties would have negotiated a ten-year marketing agreement dependent for its validity on the continued existence or operation of five named plywood mills, nor would plaintiff have committed itself to a large loan or made heavy additional advances during the life of the contract on such a basis. Their conduct showed that they did not do so. (See the trial judge's first opinion, R 82-83.)

It is undisputed that the parties dealt under the contract nearly every day for five years, and plaintiff sold three-fourths of defendant's total production during that period without either arbitration or litigation to determine the market price and without any reference whatever to the formula.

3. In denying appellant's claim for executory enforcement, the trial judge ignored the contract arbitration clause (paragraph 18), which required that

> "* * * any disagreement or difference * * * in relation to this contract either as to the construction or operation thereof, or to the respective rights and liabilities thereto, * * *"

shall be arbitrated under the provisions of the California arbitration statutes (§ § 1280-1293, Cal Code Civ Proc) (R 24-25).

The precise questions of the construction and meaning of the contract on which he relied in holding that the contract was "unworkable" without the formula were unquestionably subject to arbitration under the comprehensive terms of paragraph 18.[51] In addition, disputes over the market price itself were arbitrable; indeed, the contract expressly provided for the arbitration of veneer prices if necessary in order to make sales.[52] In *Shell Oil Company v. FPC*, (CA 3 1961) 292 F2d 149 the court recognized and held that in this situation an arbitration clause provides an agreed and

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51. See *Posner v. Grunwald-Marx, Inc.*, (1961) 56 Cal 2d 169, 14 Cal Rptr 297, 363 P2d 313 (construction of "unambiguous" provision of collective bargaining agreement held arbitrable question); *Brink v. Allegro Builders, Inc.*, (1962) 58 Cal 2d 577, 25 Cal Rptr 556, 375 P2d 436; 6A Corbin on Contracts (1962) 463-464 (§ 1444A). Specifically, the question whether the formula was a mere alternative guide to market price was arbitrable.

52. Paragraph 10 provides: "In the event said veneer cannot be sold at the prices set forth on Exhibit 'A', the price shall be fixed by arbitration under paragraph 18 if the parties themselves cannot fix the market price."

effective alternative method of establishing a price if negotiations to determine it are unsuccessful.

The court correctly found that the contract price was the general market price and that this is an objective standard.[53] The contract itself shows that the parties contemplated the use of arbitration to determine the price and that it was within their contract that it should and could be determined in ways other than by the formula. The trial judge erred in ignoring the arbitration clause in the contract.

4. The trial judge held that the five-mill formula was essential to the contract, because it was to be used to resolve occasional disputes over the prevailing market price. The record showed that roughly 75% of defendant's production was marketed by plaintiff under the contract over a period of five years without reference to the formula, even though during a part of that time defendant was actively subverting the contract by soliciting and making direct outside sales. Plaintiff's failure to enforce its option when the parties disagreed, even if it had evidenced a recognition that such disagreement would prevent a transaction between them, could not, as a matter of law, make the formula an "essential" term whose failure justified defendant's repudiation of the entire contract. There was a continuing obligation to determine the market price in good faith. A right not

53. See *California Lettuce Growers, Inc. v. Union Sugar Company*, (1955) 45 Cal 2d 474, 289 P2d 785 at 790-791.

to deal in a specific case would not give a right of repudiation or a refusal to deal in all cases. In *Jay Dreher Corporation v. Delco Appliance Corporation,* (CCA 2 1937) 93 F2d 275 a distributorship agreement allowed the manufacturer to reject "any" order. The court held that this did not give it a right to terminate the contract. The court said:

> "* * * All that the clause meant was that he should have no recourse over for his loss in such a case; it was an excuse for non-performance to be exercised bona fide, not a privilege to repudiate. * * * the defendant will use an honest judgment in passing upon orders submitted, considering them on equal terms with others it may receive and weighing them against its available supply. * * *." (at 277)

This rule was applied in *Milton v. Hudson Sales Corporation,* (1957) 152 Cal App 2d 418, 313 P2d 936 in which, on similar facts, the *Dreher* case was followed, and the court held that a reservation of the right to reject specific orders did not entitle the manufacturer to terminate the contract.

> "* * * If the contract had contained a clear-cut statement that Hudson was to be under no duty at all to sell cars to Milton, and could, even in bad faith, and with intent to injure Milton, refuse to sell him cars, would any reasonable businessman have signed it? Of course, there is an implied covenant in all contracts that the parties will act in good faith. Hudson's interpretation would violate such a covenant. * * *" (at 942)

Defendant's contention that the contract was discharged and the court's finding that it had become unworkable amount only to the assertion that defendant could lawfully destroy it by refusing in bad faith to determine prevailing market prices, whereas the evidence is conclusive that the parties could and did determine it in the vast majority of cases when they attempted in good faith to do so.[54]

5. Finally, the record showed that any inability of the parties to determine market price was only occasional and was not such "impossibility" as would operate to discharge them from continued performance or do more than suspend defendant's duty to perform. See *Oosten v. Hay Haulers (etc.) Union*, (1956) 45 Cal 2d 784, 291 P2d 17 at 20.

V.

The outside sales constituted a breach of defendant's obligations under the contract.

1. Every contract includes implied obligations of good faith and honest dealing and duties to do nothing which will impair the contract, make it difficult or impossible to perform, or destroy its value to the other contracting party. See the classic statement of the rule by Cardozo, J., in *Wood v. Lucy, Lady Duff-Gordon*, (1917) 222 NY 88, 118 NE 214; see also California Civil Code, § § 1655, 1656.

54. See also *Sidella Export & Import Corp. v. Rosen*, (1948) 273 App Div 490, 78 NYS 2d 155 at 157 (implied duty to secure ruling on ceiling price).

In *Harm v. Frasher*, (1960) 181 Cal App 2d 405, 5 Cal Rptr 367 at 374 the court stated the rule as applied in California:

> "* * * There is implied in every contract a covenant by each party not to do anything which will deprive the other parties thereto of the benefits of the contract. * * * This covenant not only imposes upon each contracting party the duty to refrain from doing anything which would render performance of the contract impossible by any act of his own, but also the duty to do everything that the contract presupposes that he will do to accomplish its purpose. * * *"[55]

2. In distributorship contracts,[56] this places an obligation on the manufacturer not to operate in a way which unfairly competes with the distributor within the scope of the distributorship and destroys the value of the contract to him. Much of the value of the distributor's services lies in his market connections and the facilities which he can command. These are the basis of his service to the manufacturer. In the course of such a contract, however, much of this information and the market connections and facilities which the distributor uses for the manufacturer's benefit can become known to the manufacturer and, with a little effort, subject to

55. The rule is of constant application. See *Universal Sales Corporation, Ltd. v. California Press Mfg. Co.*, supra, (1942) 20 Cal 2d 751, 128 P2d 665 at 677; *Bewick v. Mecham*, (1945) 26 Cal 2d 92, 156 P2d 757 at 761; *Brown v. Superior Court (etc.)*, (1949) 34 Cal 2d 559, 212 P2d 878; *California Lettuce Growers, Inc. v. Union Sugar Company*, supra, (1955) 45 Cal 2d 474, 289 P2d 785 at 792.

56. The same rule applies to option contracts. *McFerran v. Heroux*, (1954) 44 Wash 2d 631, 269 P2d 815 at 819-820 and authorities there cited.

his direct use. The temptation may arise in such a case to seek and make direct sales which subvert and constitute a breach of the contract. The evidence proved that defendant engaged in just that type of program. Its direct sales constituted a deliberate and flagrant breach of contract.

Smyth Sales, Inc. v. Petroleum Heat & Power Co., Inc., (CCA 3 1942) 128 F2d 697 at 700-701 was an action for damages for deceit in which it was charged that the supplier invaded the distributor's territory. The court said:

> "Exclusive sales agreements have been variously construed as creating an agency or a buyer and seller relationship. In most of the cases found there was not the relation of principal and agent in the ordinary sense of that term but the grant by a distributor (who was a manufacturer or wholesaler) to a distributee (a wholesaler or retailer) of an exclusive right to sell products of the former. This is the situation in the case at bar. However, the resultant relationship is not totally devoid of attributes which the law imposes upon parties in the relation of principal and agent. In other words the duties of mutual trust, confidence and loyalty so far as the subject matter of their dealing are concerned are applied to the parties to an exclusive sales transaction. The parties are not, as ordinary vendor and vendee, dealing at arm's length. They have, of their own accord, agreed to conform to a peculiar but mutually advantageous arrangement. *We believe that this relationship requires full disclosure by the parties of all facts pertinent to the exclusive sales provision*, * * *" (Emphasis supplied)

See also *E. H. Taylor, Jr., & Sons v. Julius Levin Co.,* (CCA 6 1921) 274 Fed 275 at 282 as follows:

> "* * * In the present contract, as to its executory portions, the continuing dependence of each upon the integrity and faithfulness of the other necessarily subjects it to the same rules in the respect now under consideration as are applied to strict contracts of agency."

In *J. C. Millett Co. v. Distillers Distributing Corporation,* (CA 9 1958) 258 F2d 139 at 144 this Court held that under California law the principal breached a non-exclusive distributorship by contacting retailers and discouraging them from placing orders with the distributor, thereby assisting its competitors. The manufacturer had breached implied obligations of the contract not to engage in activities harmful to the distributor in selling the product (citing *Brown v. Superior Court (etc.),* supra, (1949) 34 Cal 2d 559, 212 P2d 878).

In *A.R.A. Manufacturing Company v. Pierce,* (1959) 86 Ariz 136, 341 P2d 928 the manufacturer announced to persons who were or could be the plaintiff-distributor's customers that it would make direct sales to them at the same prices at which it sold to plaintiff. The court said (at 930):

> "* * * Whether it was or was not such an offer, an implicit promise of every exclusive distributorship agreement is that the manufacturer will do nothing to impair the efforts of the distributor to sell the manufacturer's product. * * * The corollary promise of the distributor party to such an agreement, established by Judge Cardozo's opinion in

> Wood v. Lucy, Lady Duff-Gordon, * * * of course, is that he will use his best efforts to promote the sale of the manufacturer's product. * * *
>
> " 'Business contracts,' we are reminded by the words of Mr. Justice Holmes, 'must be construed with business sense, as they naturally would be understood by intelligent men of affairs.' * * * Here, the business sense of the agreement was that appellant would rely on Arctic, and Arctic would undertake a corresponding obligation, to accomplish the efficient distribution of appellant's air conditioning units. That Arctic could not do if its customers were enticed or intrigued by the prospect of cheaper prices available elsewhere, * * * or if they were made explicitly aware that doing business with Arctic as an intermediary resulted in a higher market price than otherwise might prevail. * * *"

The "apparent tendency" of defendant's conduct to defeat the essential purpose of the parties "made it a material breach as a matter of law." See also *Buckley & Scott Utilities, Inc. v. Petroleum Heat & Power Co.*, (1943) 313 Mass 498, 48 NE 2d 154 at 157:

> "Moreover, even in the absence of an express agreement, there would have been implied in the franchise an agreement on the part of the 'owner' not to engage in competition with the 'dealer' in the latter's exclusive territory by means and in a manner that would practically destroy the right granted and that would also render it impossible for the 'dealer' to 'promote' sales and to 'operate his entire territory' as the terms of the franchise required it to do."[57]

57. See also: *Arcoil Co. v. Jacobson Manufacturing Co.*, (1929) 7 NJ Misc 1024, 147 Atl 739; *Milton v. Hudson Sales Corporation*, supra, (1957) 152 Cal App 2d 418, 313 P2d 936 at 942, 945-946.

Defendant's large volume of outside sales at discounts of 5%, 5%, 2% and more breached essential obligations of the contract. They were principally made to plaintiff's customers at prices which undercut those which plaintiff could offer and were accompanied by an insistence on a noncompetitive price level and a developing program of direct solicitation. They were not merely sales under paragraph 6 of the contract of excess production not sold by plaintiff. Defendant's undisclosed sales program itself created the inventory from which they were made—by preventing plaintiff from making sales and making them itself to plaintiff's customers at prices below those plaintiff could meet, but which still secured to defendant its anticipated net return.

Defendant cannot contend that plaintiff would not have made those sales. *Hacker Pipe & Supply Co. v. Chapman Valve Mfg. Co.*, (1936) 17 Cal App 2d 265, 61 P2d 944 was an action by an exclusive dealer complaining of direct sales made by the supplier in his territory. The defendant contended that the sales were proper and had not damaged the plaintiff, because they were made at the prices which were offered plaintiff. The court, however, held:

> "The fact that the goods were sold by defendants furnished sufficient proof that they could have been sold by plaintiff. * * *" (at 947)
>
> "* * * it is apparent that defendants had no intention of respecting plaintiff's rights under the contract and considered that they could violate them

> with impunity. Are they to be allowed in such a case to sell at what would have been the cost of the goods to plaintiff and to say to it 'there was no profit in the sales and therefore you have not been hurt'? Are they to be allowed to obliterate their contract and free themselves from their obligations by such an unfair means? If such is the law an exclusive agency contract affords the agent no protection against a principal who chooses not to respect it. An agent would be at the mercy of the principal who came into the exclusive territory and sold to others at the same prices he charged his agent for like goods. The principal would have a convenient and inexpensive way of ridding himself of an undesirable contract. * * *" (at 947)

In *Schiffman v. Peerless Motor Car Co.*, (1910) 13 Cal App 600, 110 Pac 460 at 462 the court said:

> "* * * Another element entering into the consideration of such a question is that of the estoppel of defendant to deny that plaintiff would have made sales of these machines but for its violation of the contract. It does lie in its mouth to say, 'You could not have sold these machines if I had filled your orders and had not devised a method whereby your employés could make these sales through another agency.' "

3. Defendant had two defenses to the charge that its outside sales constituted a breach of its contract obligations. The first was that plaintiff might have placed orders referred to it by defendant with another mill, because Mr. Fields and Mr. Johnson controlled a second sales company which sold for their own plywood plant, and Mr. St. Onge worked for both sales companies. This assertion was referred to by the trial judge in his second opinion (R 121).

This was a wholly fictitious issue. There was no contention and no evidence that any order was ever diverted by plaintiff from defendant to any other plant or that any order referred to plaintiff by defendant was not filled from defendant's production whenever its order file permitted. To do so would have breached plaintiff's duties to defendant under the contract—specifically, its express and implied duty, as a selling representative, to secure business for the mill in good faith (2 Tr 197). See, for example, *Cowley v. Anderson*, (CCA 10 1947) 159 F2d 1 at 3 in which the defendant-manufacturer was sued for breach of a distributorship contract and contended that the contract was void, because the distributor was not required to buy anything and the amounts of products involved were not ascertainable. The court held:

> "* * * By accepting the exclusive agency for the sale and distribution of the product over a fixed period of time, Anderson & Spilman impliedly agreed to purchase from Cowley all of the product needed to fill the orders obtained. * * *"

See also, *Mills-Morris Co. v. Champion Spark Plug Co.*, (CCA 6 1925) 7 F2d 38 at 39:

> "* * * Plaintiff had an established trade, and there was implied in the language referred to an

> obligation to buy from defendant all the plugs that plaintiff should actually, in good faith, and in the normal course of its business, require in supplying its trade. * * *"

In *American Distributing Co. v. Hayes Wheel Co.*, supra. (DC ED Mich 1918) 250 Fed 109, rev'd on other grounds (CCA 6 1919) 257 Fed 881 the contract provided that the distributor "will undertake the sale of your wheels * * * for the entire United States". The court said:

> "* * * This clearly contemplated that plaintiff would at least 'undertake' to secure and submit to defendant certain orders. * * *" (at 114)
>
> "I am of the opinion that by the terms of this contract the parties must be held to have agreed impliedly, if not expressly, that plaintiff would exercise good faith and reasonable diligence in obtaining orders for submission to and acceptance by defendant during the term of the contract, and the contract, therefor, is not open to the objection that it lacks mutuality. * * * " (at 115)

In *Automatic Vending Company v. Wisdom*, (DC Cal 1960) 182 Cal App 2d 354, 6 Cal Rptr 31 at 33 a supplier's discretionary power to change the distributor's rate of commission was held not to render the contract unenforceable.

> "* * * the power given to the Automatic Vending Company to change the commission rates upon written notice would impose a duty upon it to exercise that discretion in good faith and in accordance with fair dealings and fix the commissions in such amount as the object of the contract is reasonably worth. Therefore, it cannot be said that the contract

in question is illusory, lacks mutuality of obligation, or is void."[58]

Plaintiff not only did not do what defendant claims it might have done; it could not have done so without being guilty of the same business piracy practiced so successfully by defendant.

Defendant's second defense to the charge that its outside sales breached the contract was that plaintiff knew about them all along and had therefore waived its rights. This, too, was mentioned inconclusively by the trial judge (R 119).

The testimony was uncontradicted that the volume of these sales and the identity of the customers were unknown to plaintiff prior to the lawsuit, and that it insisted on its rights whenever defendant's conduct came to its attention. Defendant admitted that it did not disclose these sales to plaintiff and that when plaintiff learned that defendant was accepting outside orders, specifically, orders to its own customers, it protested vigorously and secured verbal assurance that it would not happen again. Plaintiff repeatedly pointed out to defendant that the contract would not work if any other course were followed (Exhs 18, 19).

The admitted facts in this case are that defendant developed its own sales organization and solicited

58. See also *Long Beach Drug Co. v. United Drug Co.*, (1939) 13 Cal 2d 158, 88 P2d 698 at 701, placing an implied duty on the distributor to "purchase and keep on sale a supply of defendant's products sufficient to meet the demands of the retail trade for these particular remedies," citing California Civil Code §§ 1655, 1656.

orders, that it made sales in large volume to plaintiff's customers, actual and potential, at prices which plaintiff could not meet, and that it did so while insisting on a relatively high price level at which plaintiff could not sell all of the production of defendant's mill. It did so without telling plaintiff that the sales were being made and after plaintiff had repeatedly insisted that all inquiries be referred to it. It thereby subverted and destroyed the contract which had enabled it to enter the business at all.

It follows that the trial court erred in holding that the outside sales did not constitute a breach of contract. The contract could not conceivably work if the supplier used a separate sales organization and solicited accounts identified for it through plaintiff's prior efforts. The contract permission to make direct sales of surplus production does not embrace the deliberate course of conduct in which defendant engaged to acquire plaintiff's business and prevent it from receiving the fruits of its investment and its continuing efforts on defendant's behalf.

VI

The trial court arbitrarily decided the case on the basis of issues which were not properly before it.

The procedure followed by the trial court in this case was novel. The problems which result are not limited to the confusion resulting from incorporating ill-defined parts of the first opinion in the second opinion by reference and then entering formal findings and conclusions, tendered by defendant's counsel insofar as they may be found not to be inconsistent with the second opinion.[59]

The trial judge turned the claim for executory enforcement wholly on an issue which was not raised in the pleadings or asserted in the pretrial order, an issue which he once indicated should not, for that reason, be considered (R 80). In his order granting a partial new trial, he expressly excluded the issue from the further proceedings (R 89). He next referred to it at the end of the partial retrial (2 Tr 708), apparently relying on the evidence of both parties that the five-mill formula was intended to apply to douglas fir as well as digger pine plywood. That evidence did not, however, bear at all on the alternative grounds (not dictum) on which the judge had relied in sustaining the validity of the contract (R 82-83), and no prior warning or notice was given anyone that the question of validity and enforceability was involved in the partial new trial.

Although it has been held to be discretionary with the trial court whether to consider an issue not presented in the pretrial order (*American Pipe & Steel Corpo-*

59. This court once held that where formal findings are entered without more, "they alone" constitute the findings, as distinguished from the court's prior opinion. *Ohlinger v. US,* (CA 9 1955) 219 F2d 310. It has since held that a memorandum opinion can supplement otherwise inadequate formal findings. *Stone v. Farnell,* (CA 9 1957) 239 F2d 750 at 755; *American Pipe & Steel Corporation v. Firestone Tire & Rubber Company,* (CA 9 1961) 292 F2d 640 at 642. In this case, the trial judge entered a separate order expressly stating that the formal findings were subordinate to his second opinion.

ration v. Firestone Tire & Rubber Company, supra, (CA 9 1961) 292 F2d 640 at 643)[60], the procedure employed in this case was misleading and therefore improper, for the trial judge first suggested that the issue was not in the case at all, but resolved it in plaintiff's favor on grounds which had nothing to do with the evidence at the retrial[61] and which were not in issue at the retrial. He excluded the question of validity and enforceability of the contract from the partial retrial and then, after it was all over, reversed his prior ruling and decided it against plaintiff.

This procedure was disorderly and went farther than merely making the appeal cumbersome and difficult. It made the case turn on an issue which was in fact not in issue, one which was beyond the contentions of the parties and which the court had expressly refused to reconsider before the partial retrial took place. Plaintiff had unquestionably sustained heavy damages from defendant's conduct, but the result of the trial court's procedure was to deny it any relief at all.

No cases have been found considering this procedure. However, in the somewhat similar case of *Phelan v. Middle States Oil Corp.*, (CA 2 1954) 210 F2d 360 at 366-367 the court said:

60. See also 29 FRD (1961) 191 at 375. However, the procedure of limiting the issues to those presented in the pre-trial order has repeatedly been approved. *Walker v. West Coast Fast Freight, Inc.*, (CA 9 1956) 233 F2d 939; *Fowler v. Crown-Zellerbach Corporation*, (CCA 9 1947) 163 F2d 773 at 774; Anno: 22 ALR 2d (1952) 599 at 611.

61. That the five-mill formula was a subsidiary provision of the contract.

"* * * Where the motion raises only a question of law, we have no doubt that Rule 59(a)(2) permits a court to reverse completely its prior judgment and give judgment for the other party, if the evidence taken at the trial justifies it. But where new facts are presented in support of the motion for a rehearing, we think that normally at least there should be a trial of those facts before a judgment based on them is entered in favor of the movant. * * * Conceivably, had a new trial been granted as to the issues raised by the cross-claim, the cross-claimant might have been able to require the production of all the records in the possession of these affiants and might have discovered other documents more favorable to its case than those picked out by them. Upon the original trial the court had sustained the cross-claim; the new evidence submitted by affidavit caused the court to change its judgment. * * * We think the cross-claimant is entitled to have the evidence which produced a change in the judgment tested by trial in open court. * * *"

In *Meadow Gold Products Co. v. Wright,* (CA DC 1960) 278 F2d 867 at 869 the court discussed the need for parties to disclose the issues before trial in the following terms:

"In view of all these developments, the courts are not to be lenient with counsel who fail to reveal the theory of their case until all the evidence is closed. Here both defense counsel and the trial judge expressed surprise. That an experienced trial judge should be unaware of the theory of plaintiff's case until that point in the trial cannot be permitted. Where that is done, it is our view that the trial court may, in its sound discretion, grant a mistrial or a reopening and recall of witnesses at the expense of the 'surprising' litigant, if the trial judge considers

> that appropriate in the interests of justice. The theory of a plaintiff's case has much to do with how defendant's counsel will cross-examine plaintiff's witnesses and, perhaps, how he will examine his own witnesses. It is too important a matter to be withheld from the adversary and from the trial judge until all the evidence is in and the case is ready to go to the jury."

We think the foregoing principles relate to issues as well as evidence and apply to judges as well as litigants.

The procedure followed in this case was incorrect and was a prejudicial abuse of discretion by the trial judge.

CONCLUSION

The record on the retrial of this case confirmed the correctness of the trial judge's initial findings and decision in plaintiff's favor. The inability of the parties to apply the subsidiary pricing provision in paragraph 3 never affected their dealings under the contract, and it was at best no more than an alternative guide designed only to assist them when market price could not otherwise be determined. It was therefore clearly wrong for the trial judge to hold that defendant had been discharged from further performance.

Secondly, the records showed that defendant engaged in a course of outside dealing which was inconsistent with and subverted the contract and breached defendant's essential obligations thereunder.

The judgment of the lower court should be reversed, and the case should be remanded with instructions to compute and enter judgment for the amount of plaintiff's damages.

Respectfully submitted,

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JAMES H. CLARKE

Attorneys for Appellant

CERTIFICATE

I certify that, in connection with the preparation of the foregoing brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Attorney

Appendix A

Exh	Ident	Off	Rec
1		9[1]	9
2		9	11
3		11	11
4		11	12
5		12	13
6A	240	13, 241	241
6B	242	13, 242	242
7		22-23, 581	582
8		23, 400	400
9	105, 187	14, 105, 187, 248	109, 249
10	105, 187	14, 105, 187, 249	109, 250
11	243	14, 244	244
12		14-15, 237	237-238
13		15, 237	237, 238
14		23	207-236
15	49-50	15, 50	52
16	75-76	15, 76	1 Tr 173-174
17		16	
pp 2-3	257	257	259
p 4	262	262	264
p 6	266	266	266
p 7	267	267	268
p 8	268	268	268

1. All references are to the transcript of the partial retrial except where otherwise indicated. Exhibits 1 through 28 were admitted at the first trial, where they bore the same identifying numbers.

Exh	Ident	Off	Rec
18	110-111	16-17, 111	112
19	115	17, 115	116
20	117, 180-181	17, 118, 121, 181	182
21	18	17-18	18
22	1 Tr 183	18	19-20
23	1 Tr 184	20	20
24	269-270	20, 270	270
25	270	20-21, 270	271
26	271-272	21, 273	273
27	273-274	21, 274	274
28	275	275	275
29	33, 101	33, 104	36, 104
30		99	99; see 1 Tr 8-23
31	122, 125	123, 125-126	126
32 through 38		189	189
39	245	245	245-246
40	246	250	250
41	251	252	253
42	254	254	254
43	255	256	256
44	261	261	262
45	279	278	279
46	301-302, 305	308	Rej 308
47		433	433-434
48	594-595	595	595-596

Exh	Ident	Off	Rec
49	596	596	596
50		599	599-600
51		612	611-612

Exh	Ident	Off	Rec
F[2]	45-46, 562	561	562
G	156	156-157	157
H	452	) 527, 591	Rej 591
I	458	)	
J	462	)	
K	465	)	
L	469	)	
M	470-471	)	
N	474, 477-478	478	478
O	482-483, 486, 587	487	488
P		538, 591	591
Q	574-575	573	575
R	561	584	585
S	575	576	576
T	585-586	587	587

2. Defendant's Exhibits A through E inclusive were offered and received at the first trial. They were not offered at the partial retrial.

In addition, testimony received at the first trial was received in evidence as follows:

Wilford H. Gonyea	192
F. A. Johnson	345
Laurence V. St. Onge	290
Fred W. Fields	345
Harold D. Olson	345
John A. Beckstrom	345
William D. Schwab	581
Robert H. Schwab	
Keith B. Smith	

Appendix B

SALES AGREEMENT

AGREEMENT made and entered into this 31st day of October, 1955, by and between INTERSTATE CONTAINER CORPORATION, a corporation duly organized and existing under the laws of the State of California with its principal office at Red Bluff, California, hereinafter referred to as "first party" and FRED FIELDS, an individual residing in the City of Portland, State of Oregon, and F. A. JOHNSON, an individual residing in the City of Grants Pass and State of Oregon, hereinafter referred to as "second party";

WITNESSETH:

WHEREAS, FIRST PARTY owns and operates a veneer manufacturing plant located at Red Bluff, California with an estimated productive capacity of veneer of approximately three million square feet per month on a three-eighths inch rough basis;

WHEREAS, FIRST PARTY desires to make arrangements for the addition of certain additional equipment in its veneer plant so that it will be in a position to produce sheathing and other grades of plywood from the veneer it is now manufacturing; and

WHEREAS, SECOND PARTY desires to make arrangements for the marketing throughout the United

States and elsewhere of the plywood to be manufactured by the FIRST PARTY, and during the period while the additional equipment is being acquired to market for the FIRST PARTY its veneer production; and

WHEREAS, SECOND PARTY has sales outlets for veneer and sheathing plywood and customers to serve in principal outlets throughout the United States and elsewhere, and SECOND PARTY also has the necessary finances to acquire the necessary additional equipment to convert the veneer plant to a sheathing plywood manufacturing plant and are able to acquire either new or used equipment to complete the facilities of the FIRST PARTY;

NOW, THEREFORE, for and in consideration of the sum of One Dollar ($1.00) by each of the parties in hand paid, receipt of which is hereby acknowledged, and other good and valuable consideration and the mutual covenants herein contained, IT IS AGREED AS FOLLOWS:

Definitions

For the purpose of this contract, the phrases:

(a) "Veneer" shall mean the veneer produced from logs manufactured by FIRST PARTY in its Red Bluff plant.

(b) "Plywood" shall mean plywood manufactured from pine or other western softwoods native to the State of California, and in addition shall include plywood manufactured by any method whatsoever.

(c) "Feet" or "square feet" of plywood whenever mentioned in this agreement shall mean "square feet" on a three-eights inch rough basis.

(d) "Market price" to jobbers shall mean the mill price less the (five) 5% functional discount to jobbers.

Example:

Mill Price	$100.00
Less-Functional Discount to plywood jobbers (5%)	5.00
Market Price (listed to jobbers)	95.00
Less Cash Discount (2%)	1.90
Balance	93.10
Less additional discount to SECOND PARTY hereunder	4.66
NET TO MILL	$ 88.44

1. Commencing on the date of this contract SECOND PARTY shall have the exclusive option to buy from FIRST PARTY, 95% of the square feet of veneer or plywood produced in its plant at Red Bluff, California.

2. This agreement shall commence on the 1st day of November, 1955, and shall continue to the 31st day of October, 1960. SECOND PARTY may, at its option,

renew this agreement for an additional five (5) year period by giving notice of its intention to so renew to the FIRST PARTY in writing not less than ninety (90) days prior to October 31, 1960.

3. SECOND PARTY, so far as possible, agrees to provide the FIRST PARTY with orders for 95% of the output of its veneer or plywood. Such orders shall be at the "market price" of veneer or plywood. It is recognized by the parties that digger pine veneer and digger pine sheathing are new products, and it is contemplated that said veneer and sheathing will be sold at the same price as douglas fir veneer and douglas fir plywood. When a "market price" is established, however, in the plants hereinafter named for "digger pine" plywood, such "market price" shall set the "market price" under this agreement. The parties agree that the published market price listed to jobbers by the following plants shall be for the purposes of this agreement the "market price":

United States Plywood Corporation, Anderson, California

Sonoma Plywood Company, Sonoma, California

Tri-State Plywood Company, Santa Clara, California

Industrial Plywood Corporation, Willits, California

Plywood, Inc., Klamath Falls, Oregon

It is recognized that the afore-mentioned mills publish price lists at different intervals and vary their prices by granting additional discounts. It is intended that the SECOND PARTY obtain orders for the FIRST PARTY at the average of such market price, taking into account the changes referred to herein.

4. SECOND PARTY shall make payment for all invoices to FIRST PARTY fifteen (15) days after the date of mailing of the invoice by FIRST PARTY to SECOND PARTY.

5. SECOND PARTY shall, as near as possible, supply orders to FIRST PARTY to take into account the logs available for veneer and plywood production by FIRST PARTY. FIRST PARTY shall, by the 10th of each month, as far as practical, give to SECOND PARTY its estimated production of plywood by grade and thickness for the following month.

6. In the event SECOND PARTY shall find it is unable to sell 95% of the output of FIRST PARTY for any given month, SECOND PARTY shall, as soon as possible, but in any event give the FIRST PARTY a ten (10) day notice of the portion of the production of SECOND PARTY that it is unable to sell during any month. In the event SECOND PARTY gives such notice, FIRST PARTY shall then be free to sell that portion of its estimated output on the open market through brokers, other than SECOND PARTY, or through its own sales organization for that month.

7. FIRST PARTY shall be free to sell up to (five) 5% of its output in the local trade area. For the purposes of this agreement the local trade area shall be defined as any point within a radius of 20 miles of FIRST PARTIES plant in Red Bluff, California.

8. It is understood that SECOND PARTY will normally take orders for shipment from 15 to 45 days after the order is taken and that SECOND PARTY may be required to commit FIRST PARTY to a price for future shipment. FIRST PARTY shall accept such commitments for a period of up to thirty (30) days and shall be bound to protect the SECOND PARTY on the price on orders accepted for a period of thirty (30) days from the date of the order.

9. All sheathing plywood purchased under this contract shall conform to the grading rules for sheathing plywood which shall from time to time be in force and on file with the U. S. Bureau of Standards, either approved by such bureau or pending such approval. When and if marketing conditions require D.F.P.A. (Douglas Fir Plywood Association) grade marked plywood due to federal or local building codes or rulings, then it is agreed by FIRST PARTY that when its internal financial condition permits and with the approval of SECOND PARTY, it will make application for membership to the D.F.P.A. and, being successful, will use the trade

grade marks owned by the association on that part of the production purchased by SECOND PARTY. In the interim, SECOND PARTY will, upon request, furnish a certificate indicating that plywood purchased by SECOND PARTY conforms to the current or pending commercial standard covering the production of pine plywood. In the event of claim on grade or quality, FIRST PARTY agrees that D.F.P.A. shall serve as inspection agent for the purpose of settling such claims. In the event such inspection shall disclose that the claim of SECOND PARTY of non-compliance of standards is justified, the cost of such inspection shall be borne by FIRST PARTY, otherwise such cost shall be borne by SECOND PARTY, FIRST PARTY further agrees to make such price adjustment as may be meet and proper in the circumstances should the claim of SECOND PARTY justify a price adjustment.

10. The price of plywood purchased by the SECOND PARTY from the FIRST PARTY hereunder shall be the "market price" to jobbers, less 5% and an additional 2% if the invoice is paid in accordance with paragraph 4. The price of veneer purchased by SECOND PARTY from FIRST PARTY hereunder shall be the "market price" less 5% and an additional 2% if the invoice is paid in accordance with paragraph 4. The starting "market price" hereunder is as set out on Exhibit "A" attached hereto. In the event said veneer cannot be

sold at the prices set forth on Exhibit "A", the price shall be fixed by arbitration under paragraph 18 if the parties themselves cannot fix the market price.

11. It is understood that SECOND PARTY contemplates forming a corporation to engage in the business of selling plywood, and that as soon as the organization of such corporation is completed, that they will assign this contract to that corporation. SECOND PARTY shall be released by virtue of such assignment of any obligations under this contract, except the obligation to furnish equipment called for by paragraph 14. In the event of any default on the part of SECOND PARTY on the payment of any obligation on said equipment, FIRST PARTY shall have the right to pay any balance owing on the equipment.

12. Except as qualified by paragraph 11, neither party to this agreement shall assign this contract without the written consent of the other party. Such consent, however, shall not be unreasonably withheld.

13. This contract is subject to acts, requests, or commands of the Government of the United States of America, and of any state, including any municipal subdivision thereof, wherein such delivery or shipment is to be made, and of any qualified board, commission, bureau or department thereof, and all rules and regulations pursuant thereto adopted or approved by said Govern-

ment or any such state, or by any such board, commission, bureau or department thereof, and FIRST PARTY'S performance of any such accepted orders under this contract is contingent upon and FIRST PARTY is not liable for delay or non-shipment or for delay or non-delivery occasioned by acts of God or civil commotions, destruction, or incapacitation of mill or mills supplying said material for FIRST PARTY, fire, earthquakes, epidemics, disease, restraint of princes, floods, snow, storms, strikes, lockouts or labor disturbances, or from any other cause whatsoever, whether similar to the foregoing or not, beyond the control of the FIRST PARTY. With respect to any order placed and accepted under this contract, if shipment is prevented by any of the aforementioned causes throughout the period specified in such order for shipment, such excuse for non-performance is permanent and said order is deemed cancelled unless expressly extended in writing by both parties hereto.

14. SECOND PARTY agrees that it will acquire, as soon as possible, the following equipment for installation in the plant of FIRST PARTY at Red Bluff, California, and SECOND PARTY further agrees to pay all costs of delivering the equipment to the plant of FIRST PARTY. The equipment may be new or used, but in any event must be in good mechanical condition and capable of performing the work normally required of

such new equipment, which said equipment shall be as follows:

(1) Cold press and accessories capable of producing panels of a dimension of not less than 4 feet by 8 feet.

(2) Glue spreader and accessories capable of producing panels of a size not less than 4 feet by 8 feet.

(3) Jointer machine and accessories.

(4) Tape machine and accessories.

In addition to the delivery of the afore-mentioned machines, SECOND PARTY agrees to advance to FIRST PARTY the sum of Ten Thousand Dollars ($10,000.00) to be used to install said machines in the plant of FIRST PARTY at Red Bluff, California. FIRST PARTY agrees to cause said machines to be installed as rapidly as possible after delivery of same by SECOND PARTY. In the event the installation costs shall exceed Ten Thousand Dollars ($10,000.00), such additional cost shall be borne by FIRST PARTY. In the event FIRST PARTY shall cause the installation to be made for less than ($10,000.00) Ten Thousand Dollars FIRST PARTY shall be entitled to retain the difference as a part of its operating capital.

15. SECOND PARTY shall keep an accurate record and obtain receipts on purchasing each machine set out

in the preceding paragraph and shall obtain from the carrier delivering the equipment to the plant of the FIRST PARTY, a receipted freight bill. After the aforementioned machines have all been delivered to the plant of the FIRST PARTY, and SECOND PARTY has advanced the sum of Ten Thousand Dollars ($10,-000.00) due FIRST PARTY, SECOND PARTY shall supply FIRST PARTY with an itemized statement of sums advanced for the purchase of said machines, plus the Ten Thousand Dollars ($10,000.00) advanced for installation. FIRST PARTY agrees to repay said sum, plus 6% interest from the date said equipment begins operation, at the rate of Two Dollars ($2.00) per thousand feet of plywood produced at the plant of FIRST PARTY. In any event, however, said sum shall be repaid within 2 years, plus such additional time as the plant of FIRST PARTY may be shut down for reasons set forth in paragraph 13, but in any event, within 3 years.

16. Title to said equipment shall remain in SECOND PARTY or its assigns until fully paid for by FIRST PARTY.

17. FIRST PARTY agrees to keep the said machinery insured, against loss from fire or extended coverage, at its full insurable value, or at least in a sum equal to the unpaid balance due to SECOND PARTY. SECOND PARTY shall be supplied with a copy of said insurance policy.

18. It is hereby agreed that in case any disagreement or difference shall arise at any time hereafter between the parties hereto in relation to this contract either as to the construction or operation thereof, or to the respective rights and liabilities thereto, such disagreement shall be submitted to the arbitration of three persons, one to be appointed by each party to this agreement, and the third to be appointed by the two so appointed. If either party shall refuse or neglect to appoint an arbitrator within 5 days after the other party shall have appointed its arbitrator, and served notice thereof, and of the particular dispute or disputes to be submitted to arbitration upon the other party, requiring it to appoint its arbitrator, then the arbitrator so first appointed shall have the power to proceed to arbitration and determine the matter or disagreement or difference as if he were the arbitrator appointed by both parties hereto for that purpose and his award in writing shall be final, provided such award shall be made within 20 days after such refusal or neglect of the other party to appoint an arbitrator. In case the two arbitrators appointed respectively by the parties hereto shall fail to agree upon the appointment of a third arbitrator within 10 days after the appointment of the last of such arbitrators respectively suggested by the parties hereto, such third arbitrator shall be appointed in accordance with the arbitration statutes of the State of California. Arbitration

hereunder shall be governed by the laws of the State of California relating to arbitration. Each party hereto shall bear its own expense in connection with any such arbitration, including the expense and compensation of the arbitrator appointed by it, and also one-half of the expense and compensation of the third arbitrator selected hereunder.

19. A waiver by either of the parties hereto of any breach of any of the provisions of this agreement shall be limited to such particular instance, and shall not operate as a waiver of, or be deemed to waive any future breaches of any of the said provisions.

20. Any notice required or permitted to be given under the provisions of this agreement shall be given as follows:

(a) To FIRST PARTY at Red Bluff, California, or at such other address as it may from time to time, in writing, designate.

(b) To SECOND PARTY at 522 Public Service Building, Portland 4, Oregon, or such other address as it may from time to time, in writing, designate.

21. Time shall be deemed to be of the essence of this contract.

22. This agreement shall become binding upon and

inure to the heirs, administrators, executors and assigns of the respective parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed on the day and year first above written.

—FIRST PARTY—

INTERSTATE CONTAINER
CORPORATION

By____________________________
President
(Seal)

ATTEST:____________________________
Secretary

—SECOND PARTY—

____
Fred Fields

____
F. A. Johnson

SALES AGREEMENT - EXHIBIT "A"

Market Prices on Pine Veneer FOB Red Bluff, California

C-D GRADE

Thickness	Length	Green Prices	Dry Prices
1/10″	100½″	$11.65	$14.50
1/8″	100½″	14.00	17.50
1/6″	100½″	17.50	21.50
3/16″	100½″	21.50	26.00
3/16″	50″	18.50	22.50

B & B Pine Grade

1/10″	19.00
1/8″	22.00

A & A Pine Grade

1/10″	26.00
1/8″	29.00

No. 18,785

IN THE

United States Court of Appeals
For the Ninth Circuit

INTERSTATE PLYWOOD SALES CO., a corporation, *Appellant,*

vs.

INTERSTATE CONTAINER CORPORATION, a corporation, *Appellee.*

Appeal from the United States District Court for the Northern District of California Southern Division

Honorable W. T. Sweigert, Judge

APPELLEE'S BRIEF

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No. 18,785

IN THE

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APPELLEE'S BRIEF

I. PRELIMINARY STATEMENT

Subject case is before this court after extensive proceedings in the trial court.

These included a first trial, following which plaintiff-appellant was awarded damages, and a new trial. The new trial was granted on certain issues. The retrial was enlarged in scope after plaintiff itself introduced evidence relative to the contract's interpretation that rendered untenable the basis upon which the court found in plaintiff's favor at the first trial. The case was exhaustively briefed and argued in the court below, and it is defendant-appellee's position that the decision in its favor was the only possible one under the circumstances.

When viewed in the proper legal and factual perspective, it is submitted that the essence of this case is as follows:

(a) The agreement (Exh. 1), gave plaintiff the exclusive option to buy 95% of defendant's production of plywood at certain stated discounts from a private "market price" which was to be the average of the published prices of five named plywood plants, called herein a "five mill formula", intentionally inserted by the parties in the contract for that purpose.

(b) The pricing mechanism in the contract, to wit, the five mill pricing formula contained in paragraph 3 thereof, failed shortly after the contract was executed, without the fault of either party, rendering the contract unenforceable.

Citations to the record below are abbreviated as follows:

1 Tr. means the transcript of the first trial.

2 Tr. means the transcript of the second trial.

DM-NT refers to the transcript dated June 18, 1963 relative to Defendant's Motion for New Trial.

1 Depo. J. refers to the first deposition of F. A. Johnson.

1 Depo. St. O. refers to the first deposition of Lawrence St. Onge.

1 Depo. Schwab refers to the first deposition of W. D. Schwab.

R. means Clerk's Record on Appeal.

Numbers following these abbreviations refer to page numbers, and numbers after a colon refer to line numbers.

II. STATEMENT OF THE CASE

In accordance with Rule 18 (3), defendant-appellee submits the following Statement of Facts, since it considers plaintiff-appellant's Statement has failed to embody certain essential features of the case.

a. Summary of Factual Background and Evidence.

Defendant is a plywood manufacturer, located in Red Bluff, California. Plaintiff is an Oregon corporation, with its principal place of business in Grants Pass, Oregon, and was the assignee of an agreement (Exh. 1) between plaintiff's predecessors in interest and defendant.

Plaintiff's assignors, Fred Fields and F. A. Johnson, own all of the plaintiff corporation stock. (1 Tr. 26; 2 Tr. 90.) F. A. Johnson is president of plaintiff corporation. (1 Tr. 23.) Under the contract, these two individuals were to loan certain monies at 6% interest to defendant to be used for the installation of certain plywood manufacturing machinery to be delivered by Johnson and Fields. Title to the machinery was to remain in Johnson and Fields (Exh. 1, para. 16) until the loans and the machinery costs had been repaid. All of the sums were repaid by defendant with interest at 6%. (1 Tr. 27; 2 Tr. 185-186.)

Fred Fields was in fact manager of the Coe Manufacturing Company of Portland, Oregon, which manufactured machinery used to make plywood. (1 Tr. 97, 98; 2 Tr. 83.) F. A. Johnson had been active in the plywood industry for some years. (1 Tr. 23; 2 Tr. 138.)

The contract in question was drafted at a meeting in Red Bluff, California. (2 Tr. 25.) A "sales agreement" between Grants Pass Plywood Co. and U. S. Plywood Corporation (Exh. 29), which was brought to the meeting by F. A. Johnson, was used as a model for the provisions in the contract which are in dispute. (2 Tr. 31, 40, 101.) Johnson was the president of Grants Pass Plywood Company. (Exh. 29, p. 6.)

Garthe E. Brown, attorney and public accountant (2 Tr. 24) had represented Coe Manufacturing Company, Fields' company, for a number of years (2 Tr. 39), and represented both Fields and Johnson in connection with the drafting of Exhibit 1. (2 Tr. 25.)

The contract executed by the parties followed the price formula idea of paragraph 7 of the model contract (Exh. 29) supplied by plaintiff's predecessors. The contract in question embodied a five plant formula (Exh. 1, para. 3) to be used to set the "market price" (2 Tr. 35) at which price plaintiff would purchase plywood from defendant.

Thus, the parties established their own private "market price" which was to be the average of the published market price listed to jobbers by five specific plywood mills, in five specific locations. (Exh. 1, para. 3.)

The price plaintiff was to pay defendant for plywood when it exercised its "exclusive option to buy" was to be "market price", as determined by the five plant formula, less certain stated percentage discounts. (Exh. 1, para. 3 and 10.)

According to the contract, the price plaintiff was to pay defendant for its plywood purchases was to be reduced by any additional discounts granted by the five plants used in determining "market price" under the formula. (Exh. 1, para. 3 and 10; 2 Tr. 4, 632.)

Plaintiff's predecessors' own attorney, Garthe E. Brown, dictated the provisions relating to the "exclusive option to buy" and the five plant formula used to determine "market price". In fact, the suggestion as to the form of the contract between the parties, including the five plant formula, came from Mr. Brown and F. A. Johnson, plaintiff's president. (2 Tr. 40-42.)

The parties intended the five plant formula to apply to all plywood produced by defendant and to be the means of fixing "market price" under the contract. (1 Depo. J. 6; 1 Tr. 33:23-34:4, 116; 2 Tr. 4, 38, 46, 85-86, 103.) Plaintiff's president, F. A. Johnson, considered the five plant formula to be an outside standard by which to determine price. (2 Tr. 169:1-6.)

The contract provided that the initial term of five years was renewable at plaintiff's option. (Exh. 1, para. 2.) The plaintiff mailed written notice to defendant of its intention to renew the contract on June 14. 1960. (R. 29, para. V.)

When the contract was negotiated, the parties contemplated that defendant would manufacture Digger pine plywood (which later proved unmarketable) (1 Tr. 57-58), and that in the future Douglas fir or other western soft woods might be used by defendant in producing plywood. (2 Tr. 93-95.)

The parties dealt with each other from October 31, 1955 until November 14, 1960. (Exh. 5.) During this period of over five years:

(1) The five plant formula was never resorted to for "market price" determination (1 Tr. 66, 137; 2 Tr. 326, 356, 363, 367);

(2) Of the five plants specified in the formula some did not publish price lists, others went out of business shortly after the contract was executed, and one other did not publish a price list of products at the specified location (1 Depo. St. O. 12-13; 1 Tr. 72-73, 76:24-25, 91-92, 94; 2 Tr. 333, 363);

(3) Price was actually arrived at by mutual agreement of the parties (1 Tr. 38-39, 61:19-63:9, 68-69, 137:3-9; 2 Tr. 317-325, 355, 382; 1 Depo. Schwab 27);

(4) Additional unpublished discounts appeared in the industry (2 Tr. 57, 70, 78-79, 330-331);

(5) It was impossible to know what these unpublished additional discounts were (1 Depo. J. 14);

(6) All orders placed by plaintiff, where the parties agreed on price, were filled by defendant (1 Tr. 48, 55, 142; 2 Tr. 158, 323, 425; 1 Depo. St. O. 15-16);

(7) Plaintiff knew defendant's production (1 Tr. 74; 2 Tr. 324, 430-431; 1 Depo. St. O. 14);

(8) Defendant complained to plaintiff about lack of orders (2 Tr. 140, 158-159);

(9) Defendant found it necessary to sell to others than plaintiff in order to stay in business (1 Tr. 143; 2 Tr. 141, 422);

(10) Plaintiff was aware of the sales by defendant to others (Exhs. 3, 18; 1 Tr. 149-150; 2 Tr. 168);

(11) The notice requirement of para. 6 of the contract was never complied with (1 Tr. 44, 144; 2 Tr. 432-433; 1 Depo. Schwab 27);

(12) The personnel used by the plaintiff corporation to sell whatever plywood it purchased from defendant was actively engaged in sales work for another sales company and competing plywood mills (1 Tr. 51, 53; 2 Tr. 314; 1 Depo. St. O. 11-12).

On November 14, 1960, defendant notified plaintiff that it did not wish to continue under the "sales option". (Exh. 5.) Plaintiff filed suit on February 10, 1961 to recover damages for an alleged breach by defendant of the "exclusive option to buy" contract. (R. 9, para. II.) Following the initial trial, judgment was entered in favor of plaintiff on May 16, 1962. (R. 66.) A new trial was granted defendant after motion for new trial. (R. 89.) The new trial was granted as to the issue of breach and damages re so-called "outside sales" and as to the issue of damage resulting from any and all breaches or repudiation of the contract in question. (R. 89.)

In the court's Memorandum of Opinion on Motion for New Trial, the court construed the five plant formula as to price as only applying to Digger pine veneer and Digger pine plywood (R. 81) as distinguished from "Douglas fir" veneer and "Douglas fir" plywood. The defendant had ceased production of any Digger pine products by March of 1956. (2 Tr. 348.)

On the retrial, plaintiff's position, with which defendant agreed, was that the five mill formula applied to all plywood (2 Tr. 4) and not just to Digger pine, and proceeded to introduce evidence to that effect, for reasons which will become obvious hereinafter. (2 Tr. 38, 46, 85-86, 103 and 169.)

b. Vital Provisions of the Contract.

In the contract, plaintiff is "Second Party" and defendant is "First Party".

Plaintiff's option to buy defendant's plywood was stated in the contract as follows:

> "Commencing on the date of this contract Second Party (plaintiff) shall have the exclusive option to buy from First Party (defendant) 95% of the square feet of veneer or plywood produced in its plant at Red Bluff, California". (Exh. 1, para. 1, p. 2.)

A provision as to when plaintiff was to pay defendant for the purchases was included as follows:

> "Second Party shall make payment for all invoices to First Party fifteen (15) days after the date of mailing of the invoices by First Party to Second Party". (Exh. 1, para. 4, p. 3.)

The price plaintiff was to pay defendant for the plywood was established as follows:

> "The price of plywood purchased by the Second Party from the First Party hereunder shall be the 'market price' to jobbers, less 5% and an additional 2% if the invoice is paid in accordance with paragraph 4". (Exh. 1, para. 10, p. 5.)

Under definitions (Exh. 1, p. 2), "market price" was defined as follows:

> "(d) 'Market price' to jobbers shall mean the mill price less the *(five) 5% functional* discount to jobbers".

The method for determining the parties' private "market price" was set forth in paragraph 3:

> "The parties agree that the published market price listed to jobbers by the following plants shall be *for the purposes of this agreement* the 'market price'." (Italics added in the last sentence):
>
> "United States Plywood Corporation, Anderson, California
> Sonoma Plywood Company, Sonoma, California
> Tri-State Plywood Company, Santa Clara, California
> Industrial Plywood Corporation, Willits, California
> Plywood, Inc., Klamath Falls, Oregon".

"It is recognized that the afore-mentioned mills publish price lists at different intervals and vary their prices by granting additional discounts. It is intended that the Second Party obtain orders for the First Party at the average of such market price, taking into account the changes referred to herein". (Exh. 1, para. 3, p. 3.)

It is noteworthy that in the foregoing definitions and in paragraph 3 and in paragraph 10, the phrase "market price" is in italics at any time the parties are referring to the price to be determined by the five plant formula. The key sentence is that contained in paragraph 3 wherein the parties agree that:

> "The published market price listed to jobbers by the following plants shall be for the purpose of this agreement the 'market price' ".

Paragraph 6 dealt with notice to be given by plaintiff to defendant as to the amount of plywood it would purchase each month from defendant and also gave defendant the right, as to portions not purchased by plaintiff, to sell same on the open market and through its own sales organization.

c. Analysis of How the Discounts Were to Be Applied Under the Contract.

Under "definitions", (Exh. 1, "(d)", p. 2) the parties gave an example of the manner in which discounts were to be applied.

While the application of the discounts to the aforementioned price of $100 is in sequence 5%, 2%, 5%, the parties referred to the discount as a 5-5 and 2. (1 Tr. 163; 2 Tr. 332.)

d. Market Price: Contract Provisions and Parties' Intentions.

Paragraph 3 of the contract could not have stated the parties' intentions any clearer:

> "The parties agree that the published market price listed to jobbers by the following plants shall be *for the purposes of this agreement* the 'market price'". (Italics added):
>
> "United States Plywood Corporation, Anderson, California
> Sonoma Plywood Company, Sonoma, California
> Tri-State Plywood Company, Santa Clara, California
> Industrial Plywood Corporation, Willits, California
> Plywood, Inc., Klamath Falls, Oregon".
>
> "It is recognized that the afore-mentioned mills publish price lists at different intervals and vary their prices by granting additional discounts. It is intended that the Second Party obtain orders for the First Party at the average of such market price, taking into account the changes referred to herein."

The record is conclusive that the parties intended the five plant formula to be the determining objective standard to be used in arriving at their own "market price".

Plaintiff's president, F. A. Johnson, who was present when the parties prepared and executed the contract and who supplied the model for the five plant formula provisions, testified:

> "Q. In other words, the formula for working out the market price was the formula that you had contemplated in the sales agreement?
> A. Yes." (1 Depo. J. 6:20-22.)
>
> "Q. Was that arrived at by some list printed by other companies?
> A. It was supposed to be, yes." (1 Tr. 34:2-4.)
>
> "Q. . . . that for the determination of price certain mills should be put into the contract as, you might say, an outside standard upon which to determine prices; isn't that right?
> A. That's right." (2 Tr. 169:2-6.)

Garthe E. Brown, F. A. Johnson and Fred Fields' attorney at the meeting where the contract was drafted, testified as follows:

> "A. *Considerable discussions were had* as to a formula of fixing the price under the contract and the formula that the contract contained using five mills in the area of Northern California, and, I believe, Southern Oregon, were agreed to as a method of fixing the price, if the parties couldn't agree". (2 Tr. 30:22-31:1.) (Italics added.)

In later reference to the same subject matter, Mr. Brown testified:

> "A. . . . in drafting the contract my recollection is that we agreed to that and then fixed this formula in the contract *to settle a price* for all sheathing, whether it was Digger pine or Douglas fir or any other kind of plywood produced". (2 Tr. 38:16-19.) (Italics added.)

W. D. Schwab, defendant's president, testified as follows:

> "A. Yes sir. We set down five mills that we were supposed to use as an average, their selling—their price list, supposed to use their average to determine what we were going to sell our plywood at". (1 Tr. 116:5-8.)

The record thus conclusively supports the fact that the five plant price formula was to apply to all veneer or plywood produced by defendant and not just Digger pine.

At the hearing on defendant's Motion For New Trial, the following exchange between court and plaintiff's counsel took place:

> "The Court: It is your position that this formula here of fixing market prices by reference to the published prices of five of these competitors applied to plywood generally under this contract?
>
> Mr. Dezendorf: That is right. Paragraphs 3 and 10 clearly show that, and that is what they did for five years". (DM-NT 59:8-13.)

In his opening address to the court at the retrial, plaintiff's counsel made the following statement:

> "As was said in chambers, plaintiff believes that the court possibly erred in construing the sales agreement, which is Plaintiff's Exhibit 1, in its holding that the so-called five mill formula applied only to Digger pine. Plaintiff contends that the testimony offered at the last trial was undisputed, and it was that the parties intended

> the five mill formula to apply to any kind of plywood manufactured under the agreement, whether it be Digger pine or Douglas Fir or anything else, and that the last two sentences of Paragraph 3 of the contract are applicable in the case and entitle the plaintiff to any additional discounts granted or allowed by a majority of the five main mills". (2 Tr. 4:1-12.)

Plaintiff's president, F. A. Johnson; Fred Fields, 50% stockholder; and Garthe E. Brown, their attorney who helped prepare the contract, testified that the five mill formula was intended to apply to all plywood and not just to Digger pine plywood. (Johnson: 2 Tr. 103:7-8; Fields: 2 Tr. 86:13-16; Brown: 2 Tr. 38:18-19, 46:16.)

e. **Failure of the Five Mill Formula.**

Shortly after the execution of the contract, the five mill formula failed, since the five named mills either were not publishing prices or were out of business or, in the case of United States Plywood Corporation, prices were not being published out of the Anderson, California, plant as required by paragraph 3.

Plaintiff's sales manager testified that three of the mills went out of business, one other did not publish price lists, and United States Plywood Corporation did not publish a price list at Anderson, California. (1 Depo. St. O. 12:23-25; 13:5-6, 13:12-17, 13:3-4; 1 Tr. 72:17-19, 92:3, 72:20-22, 73:3-4, 73:5-12, 72:23-25, 92:14-15.)

Plaintiff's president, F. A. Johnson, knew of the situation in respect to the failure of the five mills as a pricing standard. (1 Depo. J. 13:5-14:10.)

A significant exchange between the court and plaintiff's counsel appears in the record:

> "The Court: Yes, I understand that, but how can you find out, how can you possibly enforce it? They speak of an average of five prices. Now, you can't get an average of five prices if two of them don't exist.
>
> Mr. Dezendorf: But you can get an average of those that do exist.
>
> The Court: But that isn't what the contract says.
>
> Mr. Dezendorf: If there were only one, I think there would be some merit to the point, but with five, I don't think so.
>
> The Court: Where do we begin? Where do we stop? It is a matter of degree?
>
> Mr. Dezendorf: As long as you have got three mills you can get an average of, I think you got the contract in operation." (1 Tr. 292:6-20.)
>
> * * * * * * *
>
> "The Court: Yes, but didn't the contract provide that they were to average the market price of all five?
>
> Mr. Dezendorf: They were to average the market price of these five listed mills". (DM-NT 57:10-13.)

f. How the Parties Viewed Price in Their Actual Dealings.

The evidence conclusively shows that the plaintiff purchased and the defendant sold plywood only in those cases where they could agree as to price. If they could not agree on the price of a particular order, plaintiff did not place its order with defendant.

At all times during the dealings between the parties, Keith Smith was sales manager for defendant. (2 Tr. 347.) He negotiated initially with Bob Ausnes as plaintiff's sales manager (2 Tr. 350) and then Van Horn (2 Tr. 354) and finally throughout most of the time with Lawrence St. Onge.

There were occasions when Keith Smith could not agree with Ausnes or Van Horn as to price. (2 Tr. 354:23-355:4.)

Keith Smith, defendant's sales manager, testified as follows:

> "A. Well in most cases the sales company apparently had an inquiry for a certain amount of plywood with certain conditions attached to it, and they would ask us for a price quotation on it. We would give them that quotation and some times right at that time they would say, 'well, we couldn't sell it at that price, so we couldn't buy it'. They might say, 'We will go back and give this to our customer and see whether it is all right', and depending on the—and their efforts —if they secured an order from a customer they placed the order with us and we filled it". (2 Tr. 355:6-15.)

Plaintiff never insisted that defendant accept an order at what plaintiff contended was the market price. Keith Smith for defendant testified as follows:

> "Q. Well did they ever come back to you, the plaintiff ever come back to you, and say 'we can't

> sell at that price, and we insist on an order at what we contend is market price'?
>
> A. I don't recollect that they ever did that". (2 Tr. 357:12-16.)

The testimony of Keith Smith, defendant's sales manager, indicated that there were many differences between the parties as to the price to be paid by plaintiff for the plywood. In such a situation, if they could ultimately agree between themselves as to a price at which defendant would be willing to sell and plaintiff would be willing to buy, an order was placed by plaintiff with defendant. If not, plaintiff did not buy from defendant. The essence of the discussions between the two of them, as the record shows, was an attempt to agree on price. (2 Tr. 359:2-360:25, 381:14-382:18.)

Plaintiff's sales manager, St. Onge, did not consider that he had any right to insist on a purchase at a particular price unless the parties had agreed on the price and he had actually placed an order with defendant:

> "Q. And in determining with Red Bluff, when you called them and told them you had an order for this amount of goods, was that at the time that the price discussion would come?
>
> A. Usually you would talk about—it's hard to say—call up the mill and you say, 'I have an order here for . . .' so and so, '. . . and when can you ship it,' and so on, and you would set it up and then perhaps after you dispensed with definite orders, you would discuss market price or other marketing information.

I don't know—many times, I will say, that rather than actually accept an order from any particular customer I would first consult with Mr. Smith and if there was a definite price on this order that we had talked about, I would tell Mr. Smith about it; if there was not. We would try to discuss a price that we could get the order for. But I did not, unless I had a previous agreement from Mr. Smith, accept an order because *I could get stuck with it.*

Q. So that as these orders came in, I am speaking of separate transactions, you treated each one as a separate transaction insofar as price is concerned?

A. Yes, in a matter of consistency—I mean, our orders for, say, a given three or four-day period might all be exactly the same price, yes.

Q. But then the price would change and the next order would be a new transaction?

A. Perhaps, yes.

Q. Were all these orders confirmed by you?

A. The ones that we had placed at Red Bluff?

Q. Yes.

A. Yes, they are confirmed.

Q. They were confirmed individually, weren't they?

A. Yes.

Q. Many of those orders were confirmed with the price that you and Mr. Smith had agreed upon?

A. Oh, naturally.

Q. Would you say that was all of them?

A. *It would have to be agreeable or he wouldn't have confirmed it, yes."* (1 Tr. 68:5-69:18.)

> "A. Usually I attempted to work the order out prior to the time I put it down there, because, otherwise, *I might be stuck with the order,* not having any place to place it." (2 Tr. 325: 10-13.) (Emphasis added.)

The record shows that the intention of the parties, at the time of the execution of the contract, was that any disagreements as to price had to be resolved by reliance on the five plant formula. Garthe E. Brown, plaintiff's attorney testified as follows:

> "A. Considerable discussions were had as to a formula of fixing a price under the contract and the formula that the contract contained using five mills in the area of Northern California, and I believe, Southern Oregon were agreed to as a method of fixing the price, *if the parties couldn't agree"*. (2 Tr. 30:22-31:1) (Emphasis added)

When the parties could not agree as to price, plaintiff did not insist that defendant sell at a price plaintiff considered to be the market price. (2 Tr. 334:20-335:1.)

Customers were usually customers of several mills.

> "Mr. McGuire: Q. Don't other mills sell these same customers?
>
> A. Yes.
>
> Q. And, in fact, that is generally true, a customer may be a customer of a number of mills; isn't that right?
>
> A. That is right." (2 Tr. 594:12-17.)

Without a workable formula for price fixing, it was extremely difficult to establish price because of sharp fluctuations in the market and honest disagreements as to market price in general. (Testimony of St. Onge: 1 Tr. 64:21-23; 2 Tr. 333:13-16; 334:13-19.)

g. **The So-Called Outside Sales.**

F. A. Johnson, plaintiff's president, knew that the plaintiff was not buying and the defendant was not selling plywood when they could not agree on price. (2 Tr. 324:23-325:4.)

While the contract required plaintiff to notify defendant of the portion of defendant's production it planned to buy each month (Exh. 1, para. 6), plaintiff never gave such notice to defendant. (1 Tr. 44:10-12; 2 Tr. 432:10-433:6.)

Keith Smith testified as follows:

> "The Court: Was there ever any discussion between you and Mr. St. Onge concerning any such notice?
>
> The Witness: No there was never any discussion of that. Mr. St. Onge and I were practically in daily contact and I knew from the number of the orders that we got how many orders he had coming in that we were going to fill, and he knew from talking to me about how much we were going to make". (2 Tr. 432:10-433:6.)

Plaintiff was fully aware from early in the relationship of the parties that outside sales were being made by defendant. Its president, F. A. Johnson, acknowledged this fact in a letter to defendant, dated September 17, 1956, about six months after defendant began producing fir plywood:

"... *Also, I feel that our orders, which are generally from repeat accounts, should be given priority over business you may be receiving from the outside*". (Exh. 18, emphasis added.)

Defendant, in fact, on May 10, 1960, advised plaintiff that it had made substantial sales to other customers "when orders from Interstate Plywood Sales Company were insufficient to maintain operations . . ." (Exh. 3.)

Defendant often found it necessary to sell to others in order to keep its mill in operation. (1 Tr. 143:12-21; 2 Tr. 422:3-13.)

Plaintiff's president, F. A. Johnson, was well aware of this fact:

> "Mr. McGuire: All right. The fact of the matter is that it was necessary for Interstate Container Corporation to go out on the market to sell their plywood in order to stay in business, wasn't it?
>
> A. Yes". (2 Tr. 141:1-5.)

Plaintiff's president admitted that defendant was regularly complaining about the fact that plaintiff was not buying enough plywood from defendant. (2 Tr. 140:18-25, 158:23-159:2.) Concomitant with the lack of orders placed by plaintiff with defendant was the organization in 1960, prior to the termination of dealings between the parties, of a competitive plywood mill by plaintiff's president, F. A. Johnson. This was Veneer Products, another sheathing mill. (2 Tr. 154:13-17, 154:25.)

Plaintiff's sales manager, Lawrence St. Onge, was also sales manager for another plywood sales company, Plywood and Veneer Sales Company. In the Spring of 1960, when Veneer Products, the competing plywood mill, was built under the auspices of plaintiff's president, St. Onge also acted as its sales manager. (2 Tr. 150-151.) While St. Onge was sales manager for Plywood and Veneer Sales Company, as well as plaintiff company, he was responsible for selling the output of both Grants Pass Plywood Company and defendant, Interstate Container Corporation. (1 Tr. 53.)

During the period of the so-called outside sales St. Onge knew the defendant's production and testified that he never felt defendant was withholding information from him.

> "Q. But at all times, as I understand it from your former testimony—correct me if I am wrong—you were kept informed concerning their production and they were kept informed concerning what orders you had?
>
> A. I had discussed with Mr. Smith with regard to what they would produce, yes.
>
> Q. Did you ever at any time feel that they were withholding information from you as to what their production capability was, what their output was?
>
> A. No, I knew the equipment they had down there and I knew about what they would produce. I knew about what this equipment would produce". (2 Tr. 324:7-18.)
>
> "Q. Were you pretty much constantly aware of what was being manufactured down there?

A. I had a general idea of what was being produced, yes, although I couldn't give you specific figures of exact footage.

Q. Did you ask them what their production was going to be?

A. Yes.

Q. Did he give you specific answers?

A. Usually, yes". (1 Tr. 74:9-17.)

St. Onge further testified that plaintiff did not buy 95% of defendant's production because they couldn't agree on price:

"The Court: What was the reason you didn't take 95 per cent—was because what?

The Witness: Many times we could not arrive at a price list that was competitive.

The Court: You mean you couldn't agree on a price?

The Witness: Right". (1 Tr. 75:4-9.)

h. The Provision in the Contract as to Additional Discounts.

The contract provided:

"It is recognized that the *aforementioned mills* publish price lists at different intervals and vary their prices by granting additional discounts. It is intended that the Second Party obtain orders for the First Party at the average of such market price, taking into account the changes referred to herein". (Exh. 1, para 3.) (Italics added.)

The foregoing provision is contained in paragraph 3 of the contract and is inextricably linked with the five plant pricing formula. In fact, the "additional discounts" referred to therein obviously mean the discounts being granted by the five named mills.

The evidence shows that the five named mills were not publishing prices, or were out of business or in the case of one mill, prices were not being published at the location specified in the contract. Additional discounts were also not being published by any mills in the industry. (2 Tr. 330:4-6.) Plaintiff never insisted that defendant sell to it on the basis of additional discounts being granted in the industry. (2 Tr. 337:2-15.) In fact, plaintiff's personnel were purchasing plywood from other plywood manufacturers in which they were personally interested on the basis of a discount of 5-5-2, the same discount at which they were purchasing from defendant. (2 Tr. 148:22-149:10.)

The following statement by plaintiff at the commencement of the retrial is significant:

> "Plaintiff contends that the testimony offered at the last trial was undisputed, and it was that the parties intended the 5-mill formula to apply to any kind of plywood manufactured under the agreement, whether it be Digger pine or Douglas fir or anything else, and that the last two sentences of Paragraph 3 of the contract are applicable in the case and entitle the plaintiff to any additional discounts granted or allowed by a majority of the five main mills". (2 Tr. 4:6-12.)

Apparently plaintiff took this position at the retrial in an effort to receive the benefits of the additional discount provisions of paragraph 3 while, at the same time, seeking to escape the effect of the five plant formula, an essential and constituent part of the very paragraph.

* * * * * * *

The advent of a competing plywood company under the auspices of plaintiff ultimately came to the defendant's attention. Keith Smith, defendant's sales manager, testified as follows:

> "Mr. O'Gara: Q. Mr. Smith, at this particular period in January of 1960 was the plaintiff company engaged in or in association with any other mill producing sheathing plywood or about to produce sheathing plywood?" (2 Tr. 435: 13-16.)
>
> "The Witness: He told me that they had—and this is not quoting him verbatim—he told me that they were ready or about ready or were beginning to produce plywood and they were going to use the Pittsburgh Testing Laboratories as the company that was going to certify the adherence to the commercial standard". (2 Tr. 436:23-437:3.)

In that same year, defendant refused to deal further with plaintiff. (Exh. 5.)

III. DISTRICT COURT FINDINGS

Following the retrial the court concluded that:

(1) Plaintiff's undisputed position was correct and that the five mill formula was intended to apply to all kinds of plywood (R. 98);

(2) The case was tried on the theory that shortly after the execution of the contract it had become impossible for the parties to ascertain market price according to the formula (R. 101);

(3) Failure of the parties' own particular standard for determining "market price" without fault of either party was fatal to enforceability of the contract (R. 102);

(4) Defendant could not be held prospectively liable (R. 117);

(5) As to transactions completed prior to November 14, 1960 (the date when defendant notified plaintiff it did not wish to continue under the "sales option"), the parties had disregarded and waived the formula and were, during that period, operating under a written contract modified by mutual waiver and consent in accordance with Civil Code Section 1698 (R. 108); and

(6) Plaintiff was not entitled to recover.

The judgment from which plaintiff has taken this appeal was entered in favor of defendant on March 21, 1963. (R. 161.)

IV. QUESTIONS INVOLVED

The fundamental questions involved on this appeal are:

(1) Did the trial court properly construe the "Sales Agreement" to be a contract which became unenforceable when the formula intentionally inserted

therein as the determinant of "market price" for the purposes of the contract, failed without the fault of either party? Defendant contends that it did.

(2) Did the trial court properly construe the conduct of the parties, as to executed transactions, to constitute a modification of the contract's pricing provisions by mutual waiver and consent? Defendant contends that it did.

(3) Did the trial court properly find that defendant did not breach the contract by making sales to others of the production as to which plaintiff did not exercise its option? Defendant contends that it did.

(4) Did the trial court act properly and within its authority in reversing its prior holding that the contract was valid and enforceable, in view of the evidence introduced at the retrial by the plaintiff on contract interpretation? Defendant contends that it did.

Findings of Fact will not be set aside unless they are clearly erroneous and plaintiff-appellant has the burden of showing this. Rule 52 (a), *Federal Rules of Civil Procedure; Grace Bros. v. Commissioner of Internal Revenue,* C.A. 9, 1949, 173 F.2d 170, 174.

Findings of Fact are "clearly erroneous" only when unsupported by substantial evidence, clearly against the weight of the evidence or based on an erroneous view of the law. The Appellate Court in determining whether the Findings are correct looks only to the evidence most favorable to them and to such reasonable inference as will be drawn from such evidence.

2 *Barron and Holtzoff, Federal Practice and Procedure* (1950) 834; *Lewis Mach. Co. v. Aztec Lines,* (C.A. 7, 1949) 172 F.2d 746, 748.

V. APPELLEE'S ARGUMENT

A. OPENING STATEMENT.

A review of the entire record below indicates that from the beginning of the case, plaintiff was attempting to project to the court a relationship between the parties that was not created by the contract in question. At the first trial, plaintiff placed primary reliance upon an opinion of a state trial court in Portland, Oregon, in the case of Coquille Valley Lumber Company v. Bennett, referred to in the record as the "Coquille case". (R. 87.)

There are a number of references in the record to this case and the court's opinion in the Coquille case was included in plaintiff's brief on damages submitted after the first trial.

In closing argument after the first trial, plaintiff referred to the Coquille case as an "identically similar" case in Oregon, and as "an identical case". (1 Tr. 235:1-2, 235:15.)

Defendant obtained and submitted the contract in the Coquille case to the trial court in order to show the great dissimilarity between the "Coquille contract", and the option contract in the instant case. The Coquille contract was one clearly establishing a sales agency by its very language, terms and provisions. (2 Tr. 683:2-25, 684:1-19.)

The trial court immediately noted the differences in the two contracts, the legal significance thereof (2 Tr. 623:20-25, 667:20-25) and pointed out that the "Oregon court expressly differentiates such a contract from others involving 'sales to a distributor or dealer for resale'". (R. 87.)

Even plaintiff's counsel admitted that there were two types of contracts in the plywood industry and stated:

> "One is an agency contract and the other a buy-sell . . .
>
> Now, nobody knows why they are different but they are. But the results are the same . . ." (2 Tr. 624:4-5, 7-8.)

Defendant submits that such a view (i.e., that the results are the same) is sophistry and clearly not founded in sound legal analysis.

Plaintiff's protestations that the trial court erred in going beyond the scope of the new trial order are difficult to understand since the court's action in doing so was invited and condoned by the plaintiff.

Plaintiff's counsel contended that the court was in error in its Memorandum of Decision on Motion For New Trial (R. 77) in a letter dated October 13, 1962, addressed to the court just prior to the new trial, as follows:

> "In the court's memorandum of decision on motion for new trial in the next to the last para-

> graph on page 5, the court held that the five plant formula was intended by the parties to apply only to 'digger pine' veneer and sheathing as distinguished from 'douglas fir' veneer and plywood.
>
> I believe this conclusion is erroneous and I know it is contrary to the actual intention of the parties and the draftsman of the agreement.
>
> This indicates that two subsidiary issues may well exist under the legal issue (2):
>
> First: The legal issue as to the proper construction of paragraph 3 of the contract;
>
> Second: A factual issue as to the intent of the parties and the draftsman with respect to it". (R. 96A, 96B.)

The foregoing, coupled with plaintiff's counsel's statement at the new trial of his willingness "to start over completely again" (2 Tr. 3-4), joined in by defendant's counsel (2 Tr. 5:11-14), renders specious plaintiff's argument about the trial court exceeding the scope of the new trial, particularly so in view of the fact that plaintiff itself introduced evidence on the parties' intentions in inserting the price formula in the contract. (2 Tr. 30:22-31:1, 38, 83-86, 102:6-10, 103:5-8.)

B. SUMMARY OF ARGUMENT.

Defendant's position, which is fully supported in the record, is:

That under the contract, plaintiff had the "exclusive option to buy" 95% of the plywood produced by defendant in certain stated discounts from a private "market price" to be determined in accordance with an objective standard embodied in a price formula intentionally inserted in the contract for that purpose;

That without fault of either party the price formula failed and the contract thereby became unenforceable shortly after its execution;

That the contract was not an exclusive sales distributorship agreement;

That the contract was clear and unambiguous in its terms, but the admitted testimony concerning intent was completely compatible with the contract's stated intent and the doctrine of practical construction does not apply;

That during the five year period the parties dealt with each other, neither insisted on performance in accordance with the contract's terms and thereby effectively modified or waived, by their conduct during this period, the requirements of the contract;

That during the five year period the parties were doing business together, the defendant's conduct in selling to others besides plaintiff that portion of the production as to which plaintiff had not exercised its "exclusive option to buy" did not constitute the breach of a contract which was already unenforceable;

That in submitting the matter to litigation, plaintiff waived its right to the arbitration provisions of the contract;

That the pre-trial order effectively placed before the court the question of whether the contract was enforceable;

That plaintiff, by actively and voluntarily retrying the issue of intent as to the price formula in the contract, is now precluded from complaining of the court's reversal of its decision at the first trial;

That the contract is unenforceable, plaintiff has not been damaged and the judgment of the District Court must be affirmed.

C. ARGUMENT.

1. Under the contract plaintiff had the "exclusive option to buy" 95% of the plywood produced by defendant at certain stated discounts from a private "market price" to be determined in accordance with an objective standard embodied in a price formula intentionally inserted in the contract for that purpose.

(a) Law applicable to contract interpretation.

The legal effect and meaning of a contract is ordinarily a question of law and when extrinsic evidence has been received, the legal effect and meaning of whichever version of the facts is adopted by the trial court is a question of law. The outward manifestation or expression of assent is controlling, and what the language of a contract means is a matter of interpretation for the courts; it is not controlled in any sense by what either of the parties intended or thought its meaning to be. *Citizens Utilities Co. v. Wheeler,* 156 C.A. 2d 423, 432; 319 P.2d 763, 769; *Apra v. Aureguy,* 55 C.2d 827, 830; 361 P.2d 897, 899. See also *California Code of Civil Procedure,* Sections 1858 and 1861.

Every word should be accorded its just and proper meaning. *Brickell v. Batchelder,* 62 C. 623 at 631.

"It is a cardinal rule that in the interpretation of a contract every word used therein is to be given its full meaning and effect." *Neale v. Morrow,* 150 C. 414 at 418; 88 P. 815, 817.

The applicable statute is *California Civil Code,* Section 1644, Sense of Words:

"Words to be Understood in Usual Sense.

The words of a contract are to be understood in their ordinary and popular sense, rather than according to their strict legal meaning; unless used by the parties in a technical sense, or unless a special meaning is given to them by usage, in which case the latter must be followed."

(b) Particular language used by the parties in the agreement and pleadings.

The contract provided that plaintiff should have "*the exclusive option to buy*" from defendant. (Exh. 1, para. I.)

The parties provided by Definition (d) what the "market price" was to mean when those particular words "market price" were found in the contract. There is no doubt as hereinabove set forth that in "Definitions" the example of how the discounts were applied was intended by the parties to work just that way.

The parties further went on and in paragraph 3 clearly expressed their intention as to how the "market price" was to be established.

"*The parties agree* that the published market price listed to jobbers by the following plants

> shall *be for the purposes of this agreement the 'market price':"*

Further on in the agreement the parties set forth in paragraph 10 that the price of plywood *purchased* by the plaintiff "shall be the 'market price' to jobbers, less 5% and an additional 2% if the invoice is *paid* in accordance with paragraph 4".

Paragraph 4 provided that the plaintiff *"shall make payment"* to the defendant fifteen days after the invoices were mailed.

In paragraph 6 the parties clearly express their intention that when the plaintiff did not exercise its option the defendant would *"then be free to sell that portion of its estimated output on the open market through brokers . . . or through its own sales organization for that month."* (All italics ours.)

Plaintiff's complaint is based on an alleged breach by defendant of an "exclusive option to buy" (R. 9, paras. II, VII and VIII) and not on the alleged breach of any alleged exclusive sales distributorship agreement.

In addition, plaintiff's complaint recognized the fact that plaintiff was to "purchase" from defendant (R. 9, paras. VI and IX.)

The Pre-Trial Order contains references to the fact that the action was for the alleged breach of an "exclusive option to buy" and plaintiff's recognition of the fact it was to purchase from defendant under the option. (R. 28-31.)

It is difficult to see how, if the parties intended that the plaintiff was to receive an "exclusive option to buy" at stated discounts from a "market price" to be determined by a formula, the contract could have been worded any clearer in this regard. Nowhere in the contract is there any reference to the word "distributorship". The contract is also entitled "Sales Agreement".

As stated above, the contract must be interpreted so that every word is accorded its just and proper meaning and so as to effect the intention of the parties as expressed by them.

It is fundamental that an option is a mere right of election acquired under a contract to accept or reject an offer. *Ware v. Quigley,* 176 C. 694, 698; 169 P. 377, 378; *Transamerica Corp. v. Parrington,* 115 C.A.2d 346, 352; 252 P.2d 385, 389.

With the parties having agreed in unequivocal language that the formula would set the "market price" for the purposes of the agreement, and that the plaintiff was to pay the defendant the so determined "market price", less certain stated discounts, it seems almost too clear for argument that once the formula failed there was no way plaintiff could effectively exercise the option since the offer then lacked an essential term—namely, price.

(c) Testimony as to intention.

That the parties intended the five plant formula to apply to all plywood as to which plaintiff had the right to execute its "exclusive option to buy" is uncontroverted. All the witnesses so testified. (Depo. J. 6:20-22; 1 Tr. 34:2-4, 116:5-8; DM-NT 59:8-13; 2 Tr. 4:1-12, 30:22-31:1, 38:16-19, 46:16, 86:13-16, 103:7-8, 169:1-6.)

How can plaintiff refute the trial court's construction of the contract under the record now before the Appellate Court?

It has already been emphasized that the parties clearly expressed their intentions in the written contract, verified that intent in testimony concerning the circumstances surrounding execution of the contract, and defendant has cited applicable law to the effect the parties' intent cannot be varied under the guise of construction.

2. The pricing formula failed and the contract thereby became unenforceable shortly after its execution.

It is also uncontroverted that of the five mills listed in the formula provisions of paragraph 3 of the contract:

(a) United States Plywood Corporation did not publish lists at Anderson, California. (1 Tr. 73:5-12.)

(b) Sonoma Plywood Co., Sonoma, California, moved to Cloverdale, and went out of existence as Sonoma Plywood Co. (1 Depo. St. O. 12:23-25; 1 Tr. 72:17-19, 92:3.)

(c) Tri-State Plywood Co., Santa Clara, California, didn't publish price lists. (1 Tr. 72:20-22; 2 Tr. 63:15-21, 64:19, 69:12-18.)

(d) Industrial Plywood Corporation, Willits, California, went out of business. (1 Depo. St. O. 13:3-4; 1 Tr. 72:23-25.)

(e) Plywood, Inc., Klamath Falls, Oregon, went out of business at about the time the contract was to be effective. (1 Depo. St. O. 13:5-6, 13:12-17; 1 Tr. 73:3-4, 92:14-15.)

Under circumstances such as herein involved, where a formula inserted in a contract as the intended determinant of price fails without fault of either party, the contract insofar as it remains executory, is unenforceable.

Williston, Contracts, Sec. 41, pp. 134-35 (3rd Ed. 1957);

Canadian Nat. Ry. Co. v. George M. Jones Co., 27 F.2d 240, 242 (6th Cir. 1928);

Louisville Soap Co. v. Taylor, 279 F. 470, 479 (6th Cir. 1922);

Turman Oil Co. v. Sapulpa Ref. Co., 254 P. 84, 87 (Okla. 1926);

Shell Pet. Corp. v. Victor Gas Co., 84 F.2d 676, 680 (10th Cir. 1936).

The holding of the court in *Canadian Nat. Ry. Co. v. George M. Jones Co.,* 27 F.2d 240 (6th Cir. 1928), supra, is controlling in the instant case on two points:

(1) The contract here is unenforceable because of indefiniteness as to price.

(2) Even where the parties considered themselves to be bound by an alleged contract, there

> may be no binding and enforceable contract in existence between the parties.

In the *Canadian Nat. Ry. Co.* case, the railway company entered into a contract to buy coal from the coal company, deliveries to commence April 1, 1922, and to be continued in installments throughout the then ensuing year. The controversy arose from the price provision in the contract: That the price should be "the same as paid seller by other railroads on contract for mine run coal from the Hocking district at the time this contract becomes effective". On the effective date of the contract, the coal company had no contracts with other railroads.

In view of the failure of the pricing mechanism, the court held, as follows (27 F.2d 240, at 242):

> ". . . the seller having no contracts with other railroads then in effect, the *clearly intended method* and means for fixing price failed, the provision as to price became ineffective and inoperative, and *the contract became unenforceable by reason of the indefiniteness of this controlling element* and the necessity for further agreement thereon. (Citations omitted)." (Emphasis added.)

The court then goes on to say (27 F.2d 240, at 242):

> "In seeking recognition of this uncertainty as to price, an exchange of views upon the subject was proposed by the purchaser immediately upon the possibility of shipment arising. *The fact that both parties considered themselves as bound by the contract of November 25, 1921, at least to the extent of being under obligation to agree upon*

price, does not affect the situation, since both likewise recognized the necessity of price determination. There was no binding and enforceable contract then in existence between the parties. They were negotiating to make definite and certain that which then was indefinite. . . ." (Emphasis added.)

It is true that in the *Canadian Nat. Ry. Co.* case, the parties, recognizing the fact that they had no binding agreement because of the failure of the pricing mechanism, thereafter got together and agreed on a definite price of $3.50 per ton. Shipments were made at that price and paid for by the railway company at that price. The court held, therefore, that since the parties had agreed on a *definite price* and had adhered to that price for some time, the agreed price became operative in a binding contract. However, as the court said at 27 F.2d 242, in commenting on the fact that until they had agreed on a definite price, there was no binding agreement:

> "Even then the suggestions as to price revision by the buyer were offered in the spirit of seeking favor rather than as an assertion of right."

In the *Turman Oil Co.* case, supra, plaintiff and defendant entered into a written contract, for the sale by plaintiff to defendant of all oil produced from certain leases for a period of one year to be paid for at the posted market price on the date the oil was run, paid by the Prairie Oil & Gas Company for "Mid-Continent crude." The latter company, which for eleven years had been posting a single market price for all "Mid-Continent crude" without regard to gravity of the oil, changed its method of price fixing and graded all "Mid-Continent crude" into seven grades according to gravity, with a separate price for each grade, and ceased posting a single price for all "Mid-Continent crude". The court held as follows (254 P. 84, at 88):

> "We think when the Prairie Oil & Gas Company, the price-fixing agency named in the contract, ceased to post a single market price for Mid-Continent crude, as was its custom when the contract was made and for 11 years prior thereto, the contract ended, for the reason that the price to be paid could not be determined from the contract."

Interestingly enough, the court in the *Turman Oil Co.* case, at page 87, commented as follows:

> ". . . We think the case is somewhat analogous to that of an executory contract for the sale of goods, providing that the price to be paid shall be fixed by valuers appointed by them. In such case it is uniformly held, so far as we know, that, if the persons appointed as valuers fail or refuse to act there is no sale. (Citations)."

Such analogy seems valid as the lower court here pointed out in its memorandum of opinion following the retrial (R. 97):

> "On the contrary, the five mill formula for determination of market price is comparable to (although not identical with) 'sale at a valuation' referred to in Calif. Civil Code Sec. 1730 which

provides in effect that where the third person valuer, without fault of either party, cannot or does not fix the price, the contract is thereby avoided."

"In the pending case the evidence indicates, and the case has been tried by both parties upon the theory that shortly following the execution of the contract several of the five mills listed in the formula were no longer in business, others were not publishing their prices, and a fifth, U. S. Plywood, although publishing prices, was not publishing prices specifically for its mill at Anderson.

Both parties have tried the case upon the theory that it became, therefore, impossible for the parties to ascertain market price according to the formula by averaging the published market prices listed by the five named mills.

Plaintiff has suggested that it can be held as a matter of law that in such event the 'average' of the published prices should be ascertained by averaging the published price of any two or more mills actually publishing. However, even if two mills were publishing, such an interpretation of the formula would be, to say the least, a rewriting of the formula which clearly calls for averaging the published prices of the *five* named mills". (R. 100-101.)

A similar case involving failure of a specific price formula is *Ross Lumber Co. v. Hughes Lumber Co.*, 264 F. 757, 759-760 (5th Cir. 1920):

"The criterion upon which (depended) the price of the commodity to be delivered by the defend-

> ant to the plaintiff, *a necessary term of a binding contract,* thus, without fault of either of the parties, ceased to exist, and either party could refuse to be further bound by the terms. . . ." (Emphasis added.)

The California case of *Jules Levy & Bro. v. A. Mautz & Co.* (1911), 16 C.A. 666, 669, 117 P. 936, 937, is illustrative of the legal principle in point. In that case, involving the breach of a contract by defendant to buy a minimum amount of $4,000 of merchandise from plaintiff each year for five years, for cash or on such terms as might be agreed to from time to time by the parties, the court, in giving judgment for the defendant, held as follows:

> "It is elementary in law that a contract of sale must be certain as to the thing sold and designate the price to be paid for it (Civ. Code, Sec. 1729); and *it is well settled that if an executory contract of sale is uncertain and incapable of being made certain for the thing sold, neither of the parties can be held to its terms nor recover damages for its breach.* (Breckenridge v. Crocker, 78 Cal. 533, (21 Pac. 129); Association v. Phillips, 56 Cal. 539; Talmadge v. Arrowhead, 101 Cal. 367, (35 Pac. 1000); National Bank v. Hall, 101 U. S. 50, (25 L.Ed. 822); Schenectady Stove Co. v. Holbrook, 101 N. Y. 48, (4 N. E. 4); Grafton v. Cummings, 99 U.S. 106, (25 L.Ed. 366).)"

There is no point in plaintiff citing cases such as *California Lettuce Growers v. Union Sugar Co.* (1955), 45 C.2d 474, 289 P.2d 785.

In the present case, plaintiff and defendant selected a definite way of determining price which failed. The *California Lettuce Growers* case concerned a contract which was *silent* as to price, and goods (beets) *which had been delivered,* a totally different situation from ours in these important particulars.

The court in *Jules Levy & Bro. v. A. Mautz & Co.,* 16 C.A. 666, 117 P. 936, 937, furnishes the distinguishing feature in the *California Lettuce Growers* case, at 669, as follows:

> "It is true, generally, *that where no price is fixed* in a contract for the sale of a commodity, the law, *upon a delivery and acceptance of the thing sold, implies an understanding between the parties that a reasonable price is to be paid,* and in such a case the contract will be deemed to be executed. In other words, in the absence of a fixed price, *or an agreement as to the mode of ascertaining the value of the goods sold* and delivered pursuant to the contract of sale, the purchaser will be held liable for the reasonable value of the goods (citations omitted).
>
> "*Where, however, the price of a commodity called for but not delivered is to be subsequently ascertained and fixed by the valuation of others or by the agreement of the parties, the contract of sale is incomplete, and nonenforceable, until the price is so fixed or agreed upon* (citations omitted)." (Emphasis added.)

3. The contract was not an exclusive sales distributorship.

Defendant submits that the characterization by plaintiff of the agreement between the parties as one constituting an exclusive sales distributorship agreement is not relevant to the issues in this case.

The contract must be tested by its own terms and provisions, and to project desired legal consequences by labeling an agreement by some generalized descriptive term does not change either the legal relationship or the legal effect created by the express words of the contract.

None of the cases cited by plaintiff, from which it endeavors to import a relationship outside the express provisions of the contract, concern issues between parties involving an option to buy, such as the present case. In other words, plaintiff has quoted language from cases where the distributorship relationship was expressly covered in the contract itself and where there is no factual similarity.

For example, *Mantel v. International Plastic Harmonica Corp.* (1947), 141 N.J. Eq. 379, 55 Atl.2d 250 (Appellant's Brief, pp. 51-52) is not applicable to the instant action for the following reasons:

1. The *Mantel* contract was bilateral in nature since it bound the distributor to take all of the harmonicas produced by defendant-manufacturer every month, but not exceeding 30,000 per month. Thus, quantity was certain and the distributor was absolutely bound to take 30,000 harmonicas per month (see 55 A.2d at page 254). In this case, plaintiff was not required to buy any plywood from defendant since its purchases were at its own option.

2. The *Mantel* contract expressly appointed the defendant company as its "general distributor" in a specified territory in New York. (See 55 A.2d at 254.) The instant "sales agreement" contains no language specifically appointing plaintiff a distributor.

3. In the *Mantel* case, there is no option granted the distributor. The latter had to take a specific quantity of harmonicas. Here plaintiff had an "option to buy".

4. The *Mantel* case contract provided as follows:

"And it was provided that the corporation 'shall deliver to the distributor, and the latter shall take, during every month, beginning with July, 1945, all of the harmonicas produced' by it, but not exceeding 30,000 a month, 'at the lowest prices and with the highest discount which it' shall give to any other distributor in the United States of America;"

Thus, the *Mantel* case is inapposite since there was no price formula provided whereby the prices for harmonicas were to be the average of prices of other harmonica manufacturers. Hence there was really no outside standard to establish price in the *Mantel* case unlike the present situation, since in *Mantel* the selection of the price fixing mechanism was entirely dependent upon the act of the defendant-manufacturer in appointing other distributors.

In fact, the court held in the *Mantel* case as follows (55 A.2d 250 at page 254):

"But the agreement did not fix either the price of the goods or a standard for the admeasurement of the price. Indeed, appellants frankly concede that when the agreement was made, 'it was not practical to fix a free price', since the plastic harmonica 'had not yet been perfected' and the manufacturer's production capacity was all together speculative and unknown".

The court further held (55 A.2d 255):

"Performance of the mutual obligations undertaken was not to be deferred until another distributor was designated. The very terms of the writing were conclusive of that proposition. *There were preemptory correlative obligations of purchase and sale from the outset.* Defendant was bound to deliver, and complainants obliged to accept the entire production up to the specified maxima, during every month". (Emphasis added.)

As a final distinguishing characteristic the court, in the *Mantel* case held as follows (55 A.2d 250 at 255):

". . . because of exigencies of the particular situation, the parties were deliberately silent as to price; and thus they imported into their contract the standard of reasonableness which the law implies in a contract *mute as to price* and providing no mode or standard for the fixation of the price."

Lastly, the *Mantel* case came up from the lower court on an appeal from an adjudication of civil contempt against the defendant-manufacturer and from a decree enjoining the defendant from selling harmonicas to others than plaintiff (complainant) and ordering a referee to ascertain past damages. It is totally different from the factual situation here where the parties had been doing business together for some time, where the contract had provided an objective means of establishing price, and where the testimony of both parties without conflict shows that since there was no legally binding way to determine price, neither party, unless they could agree upon price, regarded itself as legally bound to buy or to sell.

Obviously, each case must turn on its own facts and plaintiff, in citing *J. C. Millett Co. v. Park & Tilford Distillers Corp.* (1959) 123 F.Supp. 484. (Appellant's Brief, p. 53) again refers to a case involving an oral contract of distributorship, conceded to be such by the parties, and where the court was concerned with what constituted a reasonable time for the termination of such contract. In that case, unlike the instant one, the plaintiff had maintained warehouse facilities and purchased and stored inventory. There was no factor in that case involving interpretation of the agreement and there was nothing in the oral contract whereby the distributor was afforded an option.

It is submitted that the plaintiff has cited no case which is in point insofar as the facts of the instant case are concerned and particularly has not cited any case where the word "option" has been interpreted to give a party a distributorship. In fact, plaintiff has cited no case to show that when parties have agreed that price is to be determined by averaging five published prices that the contract does not fail when it becomes impossible to obtain an average of the five, even though a representation that the law substantiated this position previously was made to the court by plaintiff's counsel. (DM-NT 59:23-60:18.)

It is submitted that plaintiff has no cause to complain about the type of agreement. The evidence shows clearly that it was the plaintiff who suggested the form of the agreement. (2 Tr. 40:14-19.) If plaintiff had desired a different type of contract, it could have suggested a true exclusive sales agency agreement wherein the agent sells at a commission and not this buy-sell type of arrangement, where it reserved to itself the determination of whether or not it would buy from the defendant. Obviously, plaintiff did not wish to assume the obligation to sell for the manufacturer here and the other legal burdens inherent in the principal-agency relationship.

Under the only interpretation possible as to the meaning of the word "option", it is elementary law that an option imposes no obligation (on the optionor) until it is accepted according to its terms, and unless the option is accepted it is, insofar as California law is concerned, of no force for any purpose. *Lawrence Block Co. v. J. E. Palston* (1954), 123 C.A.2d 300, 309; 266 P.2d 856, 862; *R. L. Kahn v. H. Lischner* (1954), 128 C.A.2d 480, 485; 275 P.2d 539, 542; *H. D. Upton v. Travelers Insurance Co.* (1919), 179 C. 727, 729; 178 P. 851, 852; *Transamerica Corp. v. T. M. Parrington* (1953), 115 C.A.2d 346, 352; 252 P.2d 385, 389.

What plaintiff is really trying to do is to twist the words "exclusive option to buy" around in some semantical way until they come out to mean "exclusive sales distributorship". An "exclusive option to buy" is at least inapposite of an exclusive option to sell. The construction for which plaintiff contends ignores the very features of the contract about which plaintiff's own attorney, Garthe E. Brown, testified that they had "considerable discussion". (2 Tr. 30-31.) The contract cannot be reoriented to project legal consequences tailored to suit plaintiff's objectives in the light of any situation that may have occurred after the contract's execution and in the face of the clear intent of the parties as expressed by the contract itself and their own testimony as to the importance of the pricing formula.

4. The doctrine of practical construction does not apply.

It is submitted that the doctrine of practical construction, so heavily relied on by plaintiff, is not applicable to the facts of this case.

The function of contract interpretation is to try to ascertain the true intent of the parties.

In *F. H. Gillespie v. L. D. Ormsby* (1954), 126 C.A. 2d 513 at 522; 272 P.2d 949, 955 the court states the rules governing the inquiry into intent quite clearly.

> "The rules governing our inquiry are well established. 'In construing a contract, the pri-

mary object is to ascertain and give effect to the intention of the parties. (Citations.) That intention must, in the first instance, be derived from the language of the contract. The words, phrases, and sentences employed are to be construed in the light of the expressed objectives and fundamental purposes of the parties to the agreement. (Citation.)' (Hensler v. City of Los Angeles, 124 Cal. App. 2d 71, 77, 78 (268 P.2d 12).) (2) It is likewise well settled that a written contract is to be construed strictly against its drafter. (Burr v. Sherwin-Williams Co., 42 Cal. 2d 682, 693-694 (268 P.2d 1041); Pacific Lbr Co. v. Industrial Acc. Com., 22 Cal. 2d 410, 422 (139 P.2d 892); E. A. Strout Western Realty v. Gregoire, 101 Cal. App. 2d 512, 517 (225 P.2d 585).) (3) Where necessary to gain the true intent of the parties, a court will consider the circumstances surrounding the execution of the agreement. (Code Civ. Proc., Sec. 1860; Hay v. Allen, 112 Cal. App. 2d 676, 682 (247 P.2d 94).)"

The mutual intention of the parties as it existed at the time of contracting is what the court, through interpretation and construction, is attempting to determine. 12 *Cal. Jur.* 2d; Contracts Section 120, page 328.

> *"The object and meaning of the parties' contract must be determined by their intent at the time of its execution, and it cannot be extended beyond its plain import by circumstances which occurred after its execution, and which were not within their contemplation at the time of execution." Houge v. Ford,* 44 C.2d 706 at 713; 285 P.2d 257, 260. (Emphasis added.)

The applicable statute is found in the California Civil Code:

> "Sec. 1636. Mutual Intention To Be Given Effect Contracts, How Interpreted. A contract must be so interpreted as to give effect to the mutual intention of the parties as it existed at the time of contracting, so far as the same is ascertainable and lawful."

A contract that is deliberately executed is presumed to express the parties' intentions *(Kayser v. Gorman* (1935), 3 C.2d 478 at 486; 44 P.2d 1041, 1044) and the burden of overcoming this presumption rests on the one who seeks to avoid the contract's plain terms. *Taff v. Atlas Assur. Co.* (1943), 58 C.A.2d 696 at 702; 137 P.2d 483, 487.

The contract states:

> "The parties agree that the published market price listed to jobbers by the following plants shall be for the purposes of this agreement the 'market price':" (Exh. 1, para. 3.)

The testimony is quite clear that the parties intended the five mill formula to determine the contract price for all plywood as to which plaintiff was given an option to buy. (1 Depo. J. 6:20-22; 1 Tr. 34:2-4, 116:5-8; DM-NT 59:8-13; 2 Tr. 4:4-12, 30:22-31:1, 38:16-19, 46:16, 86:13-16, 103:7-8, 169:1-6.)

It seems too clear for argument that since the parties specified their intent in the written words of the contract (Exh. 1, para. 3) and then testified that what they had said in the contract was what they intended, that there is no ambiguity in the contract.

In such circumstances, the California law allows no room for practical construction.

In *Petersen v. Ridenour* (1955), 135 C.A.2d 720 at 725; 287 P.2d 848, 850 the court referred to the doctrine of practical construction as follows:

> "The evidence showed conduct on both sides which would amount to a practical construction of the contract in harmony with defendants' contention were it not for the fact that practical construction has no place in the consideration of an unambiguous agreement. (12 Cal. Jur. 2d Sec. 129, p. 342.)"

Ambiguity signified doubtfulness or uncertainty *Kraner v. Halsey* (1889), 82 Cal. 209 at 212; 22 P. 1137, 1138 and a contract containing ambiguity is to be construed most strongly against the party that prepared it, *Waters v. Waters* (1961), 197 C.A.2d 1 at 5; 17 Cal. Rptr. 95, 97. The applicable statute is found in the California Civil Code:

> "Sec. 1654. Uncertainty, Interpretation Against Party Causing; Presumption Words To Be Taken Most Strongly Against Whom. In cases of uncertainty not removed by the preceding rules, the language of a contract should be interpreted most strongly against the party who caused the uncertainty to exist. The promisor is presumed to be such party; except in a contract between a public officer or body, as such, and a private party, in which it is presumed that all uncertainty was caused by the private party."

The testimony established without conflict that the contract in dispute was prepared from a model of another "Sales Agreement" brought to the meeting by F. A. Johnson, president of plaintiff corporation, and that the suggestion of the five plant formula to determine price came from the plaintiff's attorney, Mr. Brown, and F. A. Johnson, plaintiff's president, and was dictated by Mr. Brown (Exh. 29; 2 Tr. 24-31, 40-42, 101.)

Under the circumstances there is no room for the application of the doctrine of practical construction in connection with the contract in issue.

It is basic that it is not the province of the court to rewrite the contract for the parties *Nourse v. Kovacevich* (1941), 42 C.A.2d 769 at 772; 109 P.2d 999, 1001 and cases cited therein. An unenforceable contract cannot be made enforceable by reading into the contract provisions under the so-called doctrine of practical construction that would impugn and contradict the clear intent of the parties.

5. Waiver or modification as between the parties.

As to executed transactions, there can be no question but that the parties by their conduct impliedly waived or modified the contract so as to disregard the five mill formula because they had found the formula unworkable (App. Brief 10:2-5.)

The testimony is clear that the parties either agreed on the price or plaintiff did not exercise its option to buy plywood. In all cases where the parties did agree on price, plaintiff exercised its option and defendant filled the order.

(a) **Modification.**

The applicable statute is found in the *California Civil Code:*

> "Sec. 1698. Written Contract.
>
> "A contract in writing may be altered by a contract in writing, or by an executed oral agreement, and not otherwise."

The record is conclusive to the effect that the contract in question was not altered by a contract in writing. During the period of time that the parties were doing business together, they entered into certain executed transactions where plaintiff would buy plywood from defendant when they could mutually agree upon price. As to those executed transactions, the record is clear that neither party insisted on the pricing formula contained in the contract but in those instances they were agreeing on the price. Significantly, there were many occasions when the parties could not agree on price and on none of those occasions did plaintiff insist that defendant sell at a specific price, obviously because there was no objective determinant available by virtue of which plaintiff could insist that defendant was bound to sell at an objectively ascertained price.

(b) **Waiver.**

The intentional relinquishment of a known right with knowledge of the facts is a waiver. *Alden v. Mayfield* (1912), 164 C. 6 at 11; 127 P. 45, 48; 51 Cal. Jur. 2d Waiver Section 2, p. 306.

Waiver of a legal right may be implied as well as express and takes place where one dispenses with the performance of something he has the right to exact. *Jones v. Sunset Oil Co.* (1953), 118 C.A.2d 668, 673; 258 P.2d 510, 514. Waiver may be as effectively accomplished by conduct which naturally and justly leads to the conclusion that the right to performance has been dispensed with. *Bowman v. Santa Clara County* (1957), 153 C.A.2d 707, 713; 315 P.2d 67, 70; 51 Cal. Jur. 2d Waiver Section 4, p. 309.

The testimony shows without question that the parties intended the five mill formula to apply and that they put it in the contract for the purpose of ascertaining the price to be paid by plaintiff.

It is difficult to reach any conclusion other than that the parties waived the application of the formula on all purchases consummated during the five years they dealt together. However, it is also apparent that many purchases during this time were not made by plaintiff since there was a dispute as to price and no means available to resolve that difference.

Since the modification or waiver was not in writing, its effectiveness under the applicable statute would only relate to executed transactions.

6. No breach by outside sales.

Defendant has already covered the failure of the pricing formula and the consequent effect in respect of the uneforceability of the contract.

When the intended objective means of determining price failed, the parties in attempting to negotiate price were faced with a legal and practical deadend. Thereafter, they were operating under an unenforceable agreement and either, if it had wished, could have invoked the legal unenforceability of their relationship. The fact that for a while neither chose to do this did not alter the fact that the perspective of the legal situation was one of unenforceability. Consequently, the hypothesis upon which plaintiff seeks to establish an alleged breach as to so-called "outside sales" during the period the parties were doing business together, is based upon a false major premise, to wit, that the parties were doing business under an enforceable contract. Moreover, additional factors, even for the moment ignoring the effect of the price formula failure, militate against the validity of plaintiff's position.

Plaintiff has persistently ignored the legal effect of the "option to buy" provision of the contract. An option is a mere right of election acquired under a contract to accept or reject an offer; it imposes no obligation (on the optionor) until it is accepted according to its terms, and unless accepted it is of no force for any purpose. See *Ware v. Quigley,* 176 C. 694, 698; 169 P. 377, 378; *Transamerica Corp. v. Parrington,* 115 C.A.2d 346, 352; 252 P.2d 385, 389; *Lawrence Block Co. v. Palston,* 123 C.A.2d 300, 308; 266 P.2d 856, 861; *Kahn v. Lischner,* 128 C.A.2d 480, 485; 275 P.2d 539, 542; *Upton v. Travelers Insurance,* 179 C. 727, 729; 178 P. 851, 852.

The evidence is uncontradicted that every time the parties agreed on price and the plaintiff exercised its "exclusive option to buy" defendant sold plaintiff the plywood. (1 Tr. 48, 55, 142; 2 Tr. 158, 323, 425; 1 Depo. St. O. 15-16.)

The contract itself contemplated that defendant would have the right to sell its production to others when plaintiff did not exercise its "exclusive option to buy". (Exh. 1, para. 6, p. 3.) The lower court held, and the evidence clearly shows, that the parties waived the notice provisions of paragraph 6. (R. 118; 1 Tr. 44:10-17, 144:14-17; 2 Tr. 432:3-433:6.)

Furthermore, the contract imposed no limitation on defendant's right to sell its production to any purchaser it chose at any price it saw fit in the event plaintiff did not exercise its "option to buy".

The cited testimony establishes that plaintiff's president, F. A. Johnson, knew that the defendant had to go out on the market and sell its plywood in order to stay in business (2 Tr. 141:1-5); that plaintiff's sales manager, St. Onge, knew defendant's production, was constantly aware what was being manufactured, and received specific answers to questions directed to Keith Smith, defendant's sales manager, about what defendant's production was going to be. (1 Tr. 74:9-17; 2 Tr. 324:7-18, 431:17-433:6.)

The law in California is that no implied condition can be inserted in conflict with the express terms of a contract or to supply a covenant upon which the contract is silent. *Foley v. Euless,* 214 C. 506 at 511;

6 P.2d 956, 958. There is no authority, and plaintiff has cited none, to the effect that there is an implied obligation not to do something specifically authorized by the contract itself.

7. Arbitration provision of the contract was waived.

The arbitration provision of the contract states that:

> "Arbitration hereunder shall be governed by the laws of the State of California relating to arbitration". (Exh. 1, para. 18, p. 8.)

The California law was clearly stated by the court in *Local 569, I.A.T.S.E. v. Color Corp. of America,* 47 C.2d 189 at 194; 302 P.2d 294, 297:

> "In harmony with the arbitration statute, supra, it has been held that the arbitration provision of a contract may be waived by either or both of the parties by litigating the dispute which would be arbitrable under the provision and not raising the question of the arbitration provision (numerous citations to cases omitted), and that a failure by a party to proceed to arbitrate in the manner and at the time provided in the arbitration provision is a waiver of the right to insist on arbitration as a defense to an action on the contract."

Plaintiff obviously waived any rights it had under the arbitration provisions of the contract by litigating the issue in the District Court. Neither the Complaint nor the Pre-Trial Order make reference to arbitration. (R. 9, 28.)

VI. REPLY TO SUBSIDIARY ISSUES RAISED BY APPELLANT

A. THE PRE-TRIAL ORDER EMBRACED THE ISSUE OF THE ENFORCEABILITY OF THE CONTRACT.

The Pre-Trial Order contains the following in connection with the issue of the enforceability of the contract:

"Agreed Facts"

II

". . . if it was valid and enforceable . . ."

IV

". . . if it was valid and enforceable . . ."

VI

"In connection with said release by plaintiff (and if said written agreement was valid and enforceable) . . ."

(three references to validity and enforceability of the contract similar to the above quotation are found in said paragraph)

VII

". . . (if said written agreement was valid and enforceable) . . ."

VIII

". . . (if said written agreement was valid and enforceable) . . ."

"Plaintiff's Contentions"

I

". . . that said contract was at all times valid and enforceable prior to defendant's breach . . ."

"Issues"

I

"Was the contract involved valid and enforceable by plaintiff, and if so did defendant breach or repudiate it?"

B. THE COURT PROPERLY EXERCISED ITS AUTHORITY IN EXPANDING THE SCOPE OF THE NEW TRIAL.

1. **Plaintiff itself reopened the issue of contract interpretation.**

At the hearing on Defendant's Motion for New Trial, plaintiff actually contended that the formula in the contract was to fix market price for the parties. (DM-NT 56:9-60:15.) Plaintiff is also on record to this effect in its counsel's letter of October 13, 1962, addressed to the trial judge. (R. 96 A-B.) This position was reiterated in the opening address to the court on the retrial. (2 Tr. 4:1-12.)

During the course of the retrial, plaintiff introduced testimony relative to the parties' intention in inserting the five mill formula in the contract. (2 Tr. 30:22-31:1, 85:4-86:6, 102:6-10, 103:5-8.) The testimony of plaintiff's own witnesses at the second trial confirmed the contract's clear language to the effect the five mill formula was to be the binding objective standard for fixing price.

The law is clear that in such circumstances plaintiff cannot complain about the court's expanding the scope of the new trial.

4 *Cal. Jur.* 2d, Appeal and Error, Section 556, pages 420-421, contains the following statement:

> "Parties must abide by the consequences of their own acts, and cannot seek a reversal for errors which they committed or invited . . . and an appellant who has treated a question as an issue in a case will not on appeal be heard to say that instructions or findings thereon are erroneous as outside the issues."

The California Supreme Court in *Cross v. Bouck,* 175 C. 253 at 257; 165 P. 702, 703, makes the following comment:

> "The appellants having treated this question as an issue in the case, they will not, on appeal, be heard to say that the finding must be disregarded as outside of the pleadings."

2. The court has inherent power to reverse itself when convinced it is wrong.

In the trial court's Memorandum of Decision on Motion for New Trial (R. 77) the court concluded that the five plant formula was intended to apply only to "digger pine" plywood and not to other types of plywood. (R. 82.) The court believed that the absence of evidence to support damage under California Civil Code Section 1787 (3) was ground for a new trial upon the issue of damages. (R. 88.)

Thereafter, at the hearing on Defendant's Motion for New Trial, as well as in his letter of October 13, 1962, and in his opening statement on the retrial, plaintiff's counsel insisted that the court was wrong in concluding that the five plant formula was to apply only to digger pine. The evidence introduced at the second trial by plaintiff, as well as that introduced by defendant, obviously convinced the trial judge that his first conclusion on the applicability of the five plant formula had been erroneous. In the court's Memorandum of Opinion following the retrial the trial judge concluded, *in accordance with the evidence introduced by plaintiff* that the five mill formula was intended to apply to all plywood. (R. 98.) Defendant submits that this reversal of opinion by the trial court was not only proper but clearly necessary to prevent a miscarriage of justice.

The *Federal Rules of Civil Procedure* provide as follows:

> "Rule 16.
>
> Pre-Trial Procedure; Formulating Issues
>
> ". . . and such order when entered controls the subsequent course of the action, unless modified at the trial to prevent manifest injustice."
>
> "Rule 15.
>
> Amended and Supplemental Pleadings
>
> "(b) Amendments to Conform to the Evidence. When issues not raised by the pleadings are tried by express or implied consent of the parties, they shall be treated in all respects as if they had been raised in the pleadings. Such amendment of the pleadings as may be necessary to cause them to conform to the evidence and to raise these issues may be made upon motion of any party at any time, even after judgment; but failure so to amend does not affect the result of the trial of these issues."

Rule 16 has to be read in the light of Rule 15(b). *Bucky v. Sebo* (1953), 208 F. 2d 304, 305.

Where counsel raise other issues at the trial, such issues will be disposed of through the trial even if they are not in the pre-trial order. *Firemans Ins. Co. of Newark N. J. v. Show,* 110 F. Supp. 523, 530. See also *Kline v. S. M. Flickinger Co.* (1963), 314 F.2d 464, 467.

The pleadings will be deemed amended to conform to the issues actually tried below, even though the appellate level has already been reached. *Purofied Down Prod. Corp. v. Travelers Fire Ins. Co.* (1960), 278 F.2d 439, 444.

The comment made by the court in *Continental Casualty Co. v. American Fidelity and Cas. Co.* (1959), 186 F. Supp. 173 at 179, while arising from somewhat different circumstances gets to the substance of the reason for the above rules:

> "Such a result would create an absurdity. It would compel a court under certain circumstances, faced with the conclusion that its prior decision was erroneous, to compound the error by abiding by that prior decision merely because the error pervading the judgment is not among those which are raised by a motion to amend."

C. APPELLANT'S SPECIFICATIONS OF ERROR ARE BASED ON ERRONEOUS PREMISES CLEARLY UNSUPPORTED BY EVIDENCE.

Defendant submits that its statement of the case and the foregoing points and authorities, together with record references to the evidence relied upon in support thereof, sufficiently support the material findings challenged by plaintiff in its Specifications of Error.

In compliance with Rule 18 (3), defendant cites the following references to the record relied upon as supporting the findings challenged by plaintiff in its Specifications of Error:

Plaintiff's Specification Number	Record References Relied Upon by Defendant to Support the Challenged Finding
1	Exh. 1, para. 1, p. 2; Complaint, p. 1, para II (R. 9) (the legal theory of the entire complaint concerned a buy-sell contract only); Pre-Trial Order, p. 2, para. III; 2 Tr. 623:12-19.
2	R. 96 A-B; 2 Tr. 4:1-12; Exh. 1, Definitions (d), para. 3, para. 4, para. 10; 1 Depo. J. 6:20-22; 1 Tr. 34:2-4, 116:5-8; 2 Tr. 30:22-31:1, 38:16-19, 169:2-6; DM-NT 59:8-13.
3	See *Turman Oil Co. v. Sapulpa Ref. Co.,* 254 P. 84 at 87.
4	Testimony of St. Onge, Plaintiff's Sales Mgr., 1 Tr. 64:21-23; 2 Tr. 333:13-16, 334:13-19. In the latter reference, he admitted it was "extremely difficult" to determine general market price.
5	2 Tr. 30:22-31:1 where plaintiff's witness testified that "considerable discussions" were had as to a formula to fix price "if the parties couldn't agree" at the time of the execution of the contract.

Plaintiff's Specification Number	Record References Relied Upon by Defendant to Support the Challenged Finding
6	Exh. 1, para. 3; R. 96 A-B; 2 Tr. 4:1-12; 1 Depo. J. 6:20-22; 1 Tr. 34:2-4, 116:5-8; 2 Tr. 30:22-31:1, 38:16-19, 169:2-6; DM-NT 59:8-13; 2 Tr. 333:15-22; 334:13-19, 355:6-15, 357:12-16, 359:2-360:25.
7	1 Tr. 68:5-69:18; 2 Tr. 325:10-13, 334:20-335:1.
8	Exh. 1, para. 3 and 10; 1 Depo. J. 6:20-22; 1 Tr. 34:2-4, 116:5-8, 2 Tr. 30:22-31:1, 38:16-19, 169:2-6; DM-NT 59:8-13.
9	See record references for Specification of Error 7, supra, showing that the parties, as to executed transactions, waived the five mill formula; the contract (Exh. 1 para., 3) sets forth their intent that the five mill formula fix the "market price"; the testimony (see record references for Specification of Error 2) conclusively showed they intended the formula to apply as the objective, binding means to fix price and, therefore, there is no ambiguity in the contract. "Practical construction has no place in the construction of an unambiguous agreement". *Petersen v. Ridenour,* 135 Cal.App.2d 720 at 725, 287 P.2d 848 at 850.
10	This statement is completely at variance with the evidence concerning the intent of the parties at the time of the execution of the contract (see record reference for Specification 9 and case citation).

Plaintiff's Specification Number	Record References Relied Upon by Defendant to Support the Challenged Finding
11	See record references for Specification 9.
12	See record references for Specification 4. Further, the parties' intent is to be determined at the time of the execution of the contract and at that time they intended the five plant formula to be the binding objective standard for fixing price (See record references for Specification 2 and *Houge v. Ford,* 44 C.2d 706 at 713, 285 P.2d 257 at 260). The plaintiff waived the arbitration provision of the contract by litigating the issues herein involved and never resorting to arbitration. (*Local 569 v. Color Corporation,* 47 C.2d 189 at 194, 302 P.2d 294 at 297.) As to "implied consent" by waiver, see record references to Specification 7.
13	See Exh. 5; Pre-Trial Order "Issues", para. I, R. 32, 1 Depo. Schwab 26:18-27:9. Plaintiff has persistently ignored the basic fact in the entire record that the parties had an unworkable, unenforceable agreement because of the failure of an essential part of the contract, the five plant pricing formula.
14	This is a distortion of the trial court's language in 2 Op., R. 117. The court was merely stating, in effect, that plain-

Plaintiff's Specification Number	Record References Relied Upon by Defendant to Support the Challenged Finding
	tiff had the burden of proving that there was an enforceable contract in order to recover. (See 2 Op., R. 116.) Plaintiff uses the words "impossibility or frustration" out of context. The defense of unenforceability was available to defendant under the issues of the Pre-Trial Order (Pre-Trial Order "Issues", para. I, R. 32).
15	Plaintiff itself reopened the issue of contract interpretation and itself broadened the issues at the retrial. R. 96 A-B, 2 Tr. 4:1-12, 30:22-31:1, 85:4-86:6, 102:6-10, 103:5-8. See *Cross v. Bouck,* 175 Cal. 253 at 257, 165 P. 702 at 703; *Fed. Rules of Civil Procedure* 15 (b).
16	See 2 Tr. 707:22-25 where the court said, ". . . I think we have given everybody a chance to put on all the evidence that he thought should be in". Plaintiff did not dispute this at the close of the trial nor offer additional evidence.
17	See Pre-Trial Order, R. 28-33, "Agreed Facts", paras. II, IV, VI, VII and VIII; plaintiff's contentions I and "Issues", para. I.
18	See 1 Tr. 74:9-17, 149:23-150:3; 2 Tr. 324:7-18 (Plaintiff's sales mgr., in fact, testified that he never felt defendant was "withholding information"—2 Tr. 324:13-18).

Plaintiff's Specification Number	Record References Relied Upon by Defendant to Support the Challenged Finding
	See also 2 Tr. 430:3-9 and 2 Tr. 638:3-7 where plaintiff's counsel agreed that "both parties knew what the production was". Plaintiff did not buy more from defendant because it thought defendant's prices were too high. 2 Tr. 640:5-11. Plaintiff's president admitted it was necessary for defendant "to go out on the market and sell their plywood in order to stay in business". 2 Tr. 141:1-5.
19	Exh. 1, para. 6, Notice requirement of this paragraph was waived. 1 Tr. 44, 144; 2 Tr. 432-433; 1 Depo. Schwab 27. Also, the mills in general sold to the same customers. 2 Tr. 594:12-17. Defendant had the right to sell on the "open market" by para. 6 of Exh. 1.
20	See Exh. 1. This was not one of the terms of the contract. Plaintiff had only an option to buy. Para. 6, Exh. 1, expressly granted defendant the right to sell on the "open market" if plaintiff did not exercise its option. See also record references for Specification 19. Also, plaintiff's personnel, including its Sales Mgr., were engaged in buying from competing plywood companies. 1 Tr. 51:17-18, 53:18-20; 2 Tr. 314; 1 Depo. St. Onge 11:15-12:5.
21	The record is clear that general market price was extremely difficult to ascertain and the inference is clear that this

Plaintiff's Specification Number	Record References Relied Upon by Defendant to Support the Challenged Finding
	was a primary reason for the inclusion of the five mill formula in the contract. The essential vice in the parties' relationship, after the failure of the formula, was the absence of any objective standard by which a binding price could be enforced between the parties.
	See record references for specifications 4 and 7.
22	See record references for Specifications 19 and 20. As a practical matter, defendant, in view of the serious involvement by plaintiff's personnel in competing plywood operations (particularly the organization of Veneer Products, a competing plywood mill) had reasonable cause for concern that plaintiff would not place defendant's interests first. The contract did not prohibit plaintiff from placing an order elsewhere and since St. Onge was acting for others, besides buying from defendant, the inference is strong that orders were placed by him with other mills during the course of the parties' dealings.
23	See Exh. 3 and Keith Smith's account of this transaction in 2 Tr. 380:4-381:12.
24	No implied obligation can be inserted in a contract in conflict with the express terms of a contract or to supply a covenant upon which the contract is silent. *Foley v. Euless,* 214 Cal. 506 at 511; 6 P.2d 956 at 958.

Plaintiff's Specification Number	Record References Relied Upon by Defendant to Support the Challenged Finding
25	See record references for Specifications 2, 6, 7 and 8.
26	See record references for Specifications 1, 2, 5, 6, 9, 12; and Exh. 1, Definitions (d) and paras. 1, 3 and 10.
27	See record references referred to for Specification 26. The record is clear that plaintiff did not buy and defendant did not sell unless they could "agree" on price, that plaintiff never insisted that defendant sell to it at a price plaintiff considered a binding price, and that there was no objective standard, following the failure of the pricing formula, which would bind plaintiff to buy or defendant to sell if they could not agree.
28	Defendant submits that it can only be concluded, from a review of the evidence, that price was determined by a subjective evaluation of the two sales managers. See record references for Specification 4.
29	The record is clear that there was no purchase by plaintiff if the parties could not agree as to price, and the absence of an objective standard of price determination left both parties without recourse in the event of disagreement. See record references for Specifications 4, 5, 6 and 8.
30	See Exh. 1, para. 3; 1 Depo. J. 6:20-22; 1 Tr. 34:2-4, 116:5-8; 2 Tr. 4:1-12, 30:22-31:1, 38:16-19, 46:16, 86:13-16, 103:7-8, 169:1-6.

Plaintiff's Specification Number	Record References Relied Upon by Defendant to Support the Challenged Finding
31	2 Tr. 359:2-360:25, 381:14-382:18; 1 Tr. 68:5-69:18; 2 Tr. 325:10-13.
32	2 Tr. 141:1-5; 1 Tr. 75:4-9; 2 Tr. 324:7-18; 1 Tr. 74:9-17; 1 Tr. 143:12-21; 2 Tr. 422:3-13; 2 Tr. 140:18-25, 158:23-159:2.
33	See record references for Specifications 31 and 32.
34	See record references for Specifications 6, 13, 25, 27, 30, 31.
35	See record references for Specification 34.
36	See record references for Specification 7.
37	See record references for Specification 14.
38	The inconsistency between the court's opinion after the first trial and its opinion after the second trial was because of a misapprehension of the court at the first trial as to the products covered by the pricing formula. This was clarified for the court when the plaintiff introduced evidence at the second trial showing that the pricing formula applied to all products. The effect of such evidence, however, was to render untenable the premise upon which the court had based its decision at the first trial.
39	Under the evidence at the second trial, it is submitted that the court had no alternative except to find in defendant's favor.

VII. CONCLUSION

Defendant submits that the evidence introduced at the retrial, particularly the testimony of plaintiff's own witnesses in connection with the intended binding effect of the pricing formula, completely destroyed the foundation of the court's decision in plaintiff's favor at the first trial.

It is apparent that the failure of the objective means of determining price undermined the certainty and definiteness of the contract as a whole. This is demonstrated in the parties' dealings which amounted in effect to an agreement to agree because there was no outside standard or index by which the parties could be bound in fixing a price on the purchases to be made by plaintiff.

Plaintiff's position is based on the completely unwarranted assumption that plaintiff, if the relationship between the parties had continued, would have exercised its option to buy 95% of the defendant's production. Plaintiff thereby assumes that the parties, if they had continued their buy-sell negotiations in the future, would not have been confronted with the same dead-end of price disagreements that characterized their operations in the past. Obviously, without an operative binding determinant as to price beyond the control of either party, disagreements as to price would have continued and there would have been no legally efficacious means of resolving them.

Plaintiff's case must fall, therefore, by reason of the uncertainty of the contract in respect of its pricing feature and the unenforceability of the contract as a result thereof.

While defendant has shown that the plaintiff's attempt to read into the relationship certain "implied obligations" in conflict with certain express provisions in the contract is without merit, defendant submits that, under any view of the relationship, plaintiff is hardly in a position to stress equities when its own position in this perspective is to be seriously questioned. The activities of plaintiff's executives in promoting the interests of competing plywood mills hardly justifies the pre-emption by plaintiff of an attitude of innocent behavior.

In any event, the contract cannot be rewritten for the parties in order to achieve the objectives sought by plaintiff. As the record of the second trial so conclusively shows, plaintiff itself chose the form of the agreement, proposed the "option to buy" and five mill pricing formula provisions and brought to the meeting at which the contract was executed a "model" agreement from which the essential features of the agreement in question were taken. Assuredly under such circumstances, it would be unseemly to indict defendant for the failure of the contract under actual operating conditions and to impose upon defendant legal consequences completely out of context with contractual intent.

The judgment of the lower court was rendered after a thorough analysis of the legal and factual considerations embodied in the case and the decision is the only possible one under the circumstances of this case.

It is submitted that the judgment of the lower court should be affirmed.

Dated, San Francisco, California,
December 11, 1963.

Respectfully submitted,
O'Gara & McGuire,
James O'Gara, Jr.,
E. James McGuire,
Walter R. Wright,
Attorneys for Appellee.

Certificate of Counsel

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

E. James McGuire,
Attorney for Appellee.

No. 18785

In the

United States Court of Appeals

For the Ninth Circuit

INTERSTATE PLYWOOD SALES CO., a corporation,
Appellant,

vs.

INTERSTATE CONTAINER CORPORATION, a corporation,
Appellee.

APPELLANT'S REPLY BRIEF

Appeal from the United States District Court for the Northern District of California
Southern Division

HONORABLE W. T. SWEIGERT, Judge

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No. 18785

In the

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Appellee.

Appeal from the United States District Court for the
Northern District of California
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HONORABLE W. T. SWEIGERT, Judge

APPELLANT'S REPLY BRIEF

ARGUMENT

I

The contract called for sales at current market price, which the parties could and did ascertain.

Defendant's argument is based on a false position which is contradicted by the record and the trial court's findings. The trial court emphatically rejected its contention that the five-mill formula was the exclusive means of determining the contract price,[1] that the

1. Defendant seeks to resurrect its argument by repeated references to "the price," and "the contract price" (never the "market price" as stated in the contract) (see Br 4, 5, 11, 19, 51, 55, 64). Counsel also refers to the formula as "the determining objective standard" (Br 11), "the binding objective standard" (Br 66), and "the objective, binding means to fix price" (Br 65).

parties' failure to use it turned the contract into "an agreement to agree" on a "mutually acceptable price," and that the parties only dealt when they could "agree as to price."[2] It found (2 Op, R 102, 110, 119-120) and defendant elsewhere does not deny (Br 12, 19-20) that the parties in fact contracted to deal at the current market price,[3] and that the formula, far from being the exclusive means of determining the price, was only to be used at all when it could not otherwise be determined. The parties, when they failed to use the formula, did not negotiate for a "mutually acceptable price"; they merely acted under the contract to determine the current market price at which they had agreed to deal and which, in view of their position in the market, was the only price at which they could deal at all. Their occasional failure to reach agreement

> "* * * did not arise from bargaining for a new, mutually agreeable price under a new day to day arrangement, i.e., under a new substituted oral contract, but only from an inability of the parties to agree upon what the 'market price' for plywood happened to be at particular times." (2 Op, R 106-107)

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2. See Br 15-19; see also Br 6, 70, 72. Thus, defendant states

> "* * * if they could ultimately agree between themselves as to a price at which defendant would be willing to sell and plaintiff would be willing to buy, an order was placed * * *." (Br 17)

3. The trial court found that market price is legally ascertainable and that a contract to sell at the market price is enforceable (R 83-84).

Furthermore, the record shows conclusively that the parties could and did ascertain that price. Apart from the two periods in which defendant solicited and made extensive outside sales to plaintiff's own customers (May, 1956 through July, 1957 and May, 1959 through December, 1960)[4] plaintiff marketed more than 95% of defendant's production, and during the entire five year life of the contract plaintiff marketed ¾ of defendant's total production (Exh 24; Exh 17, pp 2-4).

Defendant's basic contention is based on a misconception of the evidence and the decision below. It is wholly without merit.

II

The contract was an exclusive distributorship agreement; it was not an option contract.

Defendant asserts that this contract, which provided for the marketing of up to 95% of defendant's production on an exclusive basis, cannot be regarded as a distributorship agreement, because the word "option" in the contract meant that plaintiff was under no duty to buy anything (Br 35, 43-49). The question, in fact, is not whether there was a duty to buy, but whether there was a duty to market defendant's plywood, and of this there is no doubt whatever, for the contract expressly obligated plaintiff to promote and sell defend-

4. Plaintiff marketed more than one-half of defendant's production during each of those periods.

ant's plywood[5] and make large loans to defendant for plant and equipment. It obligated plaintiff to seek orders for plywood which would necessarily result in the exercise of its right to buy, and it therefore disproves by its express terms defendant's theory that it was a mere unilateral option agreement.[6]

Finally, defendant's argument ignores what the parties were trying to do. Defendant was trying to market its plywood through plaintiff; plaintiff was trying to market defendant's plywood. The contract covered 95% of defendant's production and was necessarily an exclusive one.[7] There is no suggestion that plaintiff ever purchased for its own warehousing or use or that plaintiff ever did anything but perform a distributor's function for defendant. It can matter not at all that the

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5. Paragraph 3 provided:

> "SECOND PARTY, so far as possible, agrees to provide the FIRST PARTY with orders for 95% of the output of its veneer or plywood. * * *"

Paragraph 5 provided:

> "SECOND PARTY shall, as near as possible, supply orders to FIRST PARTY to take into account the logs available for veneer and plywood production by FIRST PARTY. * * *" (Op Br 94-95)

See also the recitals to the contract, which set forth its purposes and establish that defendant needed and plaintiff was to provide defendant with marketing services as well as investment capital (Op Br 91-92).

6. Compare the cases cited and relied on by defendant (Br 35, 48-49) for the proposition that an "option," as such, imposes no duty to buy, a principle which has no bearing on the issues in this case: *Transamerica Corp. v. Parrington*, (1953) 115 Cal App 2d 346, 252 P2d 385 at 388-389 (owner of stock subject to option is owner "in his own right" until option exercised); *Ware v. Quigley*, (1917) 176 Cal 694, 169 Pac 377 at 378 (option to sell land is not a "transfer"); *Lawrence Block Co. v. Palston*, (1954) 123 Cal App 2d 300, 266 P2d 856 at 862 (unrestricted discretion to buy created only option contract in absence of mutual obligations); *Kahn v. Lischner*, (1954) 128 Cal App 2d 480, 275 P2d 539 at 542 (qualified acceptance of offer is counter-offer); *Upton v. Travelers' Ins. Co.*, (1919) 179 Cal 727, 178 Pac 851 at 852 (unexercised option to extend insurance policy does not create coverage during option period).

7. The remaining 5% could be sold only locally and not in the general market (Op Br 96).

contract referred to an "option," any more than if it had been in the form of a purchase and sale or consignment or agency agreement.

III

Plaintiff had no material knowledge of defendant's outside sales.

The evidence relied on by counsel to show that plaintiff knew about the outside sales (Br 7, 20, 21) shows only how little it actually knew and the true extent of defendant's duplicity. There was no evidence that plaintiff knew that nearly all of these sales were being solicited and made by defendant to plaintiff's own customers at prices from which defendant deducted part or all of plaintiff's commission. Nor was it shown that plaintiff ever comprehended the great quantity of these sales which were taking place or their relationship to defendant's insistence on prices at the top of the market spread (R 104). The record is undisputed that plaintiff objected to the sales, especially those to its own customers, when they came to its attention (Exhs 18, 19).

Plaintiff does not contend that sales of excess production under paragraph 6 would have breached the contract. It does assert that defendant's intentional and extensive sales program to plaintiff's customers at discount prices, and its insistence on a high price level which created an artificial inventory of unsold production subverted and breached the contract and effectively appropriated the fruits of plaintiff's efforts to defendant. Defendant's conduct was unprincipled and dishonest and constituted a repeated, wilful and flagrant breach of contract.

IV

Defendant's alleged fear of competition by plaintiff is not an issue in the case.

Defendant has misstated the facts concerning the other business activities of plaintiff's officers (Br 21-22, 68, 69, 73). The record shows that until 1959 Mr. Johnson was the president of Grants Pass Plywood Company, a worker owned co-op. Mr. St. Onge, who was plaintiff's sales manager, was also the sales manager of the sales company (Plywood and Veneer Sales Co.) which sold plywood for Grants Pass (1 Tr 31-32, 33). The bulk of the production of Grants Pass was not sheathing plywood (2 Tr 143), and the purchases by Plywood and Veneer Sales Co. from Grants Pass were mostly "other grades" (2 Tr 158). Not only were the products of Grants Pass not competitive with defendant's plywood, but there is no evidence whatever (and defendant suggests none) that any order referred to plaintiff by defendant was ever improperly diverted from defendant to Grants Pass or anyone else[8] (see Exh 31).

8. There is equally no evidence to support the "strong inference" of improper conduct suggested by defendant (Br 69; see also Br 73).

The evidence is also uncontradicted that, commencing no earlier than January, 1961, two months *after* defendant repudiated the contract, plaintiff purchased sheathing plywood from a new mill, Veneer Products, which had commenced production in December, 1960 (2 Tr 148-150, 446-447). Its purchases from Veneer Products continued for six months (2 Tr 153). Defendant thus errs and ignores the record in asserting (Br 22) that in the spring of 1960 Mr. St. Onge commenced to act as the sales manager of Veneer Products. The Veneer Products mill was built in the fall of 1960 (2 Tr 446); it did not commence production until at least December, 1960 (2 Tr 158; see also 2 Tr 150, cited by defendant); and Mr. St. Onge would not be its sales manager in any case, since he acted for sales companies, not mills.

In the complete absence of any contention or evidence that plaintiff did not properly represent defendant or that there was any failure adequately and properly to represent defendant's interests in the market, and considering the volume of defendant's plywood that plaintiff marketed before defendant repudiated the contract, the issue which defendant seeks to raise is a completely false one.

V

The five-mill formula.

1. Contrary to defendant's suggestion (Br 5, 52-53,

73), plaintiff's attorney did not unilaterally put the five-mill formula into the contract. After the draft was dictated, he and defendant's attorney, Mr. Robert H. Schwab (1 Tr 125) who is the father of defendant's president, Mr. William D. Schwab (1 Tr 112, 121, 125), reviewed it and made mutually acceptable changes (2 Tr 40-42). Defendant's president testified that the contract was prepared by both men (1 Tr 127), and its attorney admitted that he had reviewed and approved it (1 Tr 132). There is no factual basis whatever for contending that the contract should be construed against plaintiff, who is not "the party who caused the uncertainty to exist" (Br 52; Cal Civ Code § 1654). We do, however, join with counsel in asserting that this is in material respects an ambiguous and uncertain instrument.

2. Defendant overstates the facts respecting the five named mills (Br 14, 36-37). During the life of the contract, Industrial Plywood published price lists which the parties used (1 Tr 92; 2 Tr 78-79), and United States Plywood Corporation published a price list which was applicable to its mill at Anderson, California and was also used by the parties (1 Tr 90-91, 138, 155; 2 Tr 172-173, 363). Tri-State Plywood also quoted prices to which the parties referred in arriving at the market price (1 Tr 91; 2 Tr 364).

The contract itself contemplated that it might not always be possible to average the jobber prices of all five mills,[9] and the parties' failure to do so scarcely shows either that the formula itself had failed or that the contract was frustrated. That they did not even try to do so resulted from the fact that the formula was not a reliable or sufficient guide to the market price at which they had to deal, and this would have been true no matter how many mills were publishing prices.

3. Counsel wrongly asserts (Br 30) that plaintiff expressed its willingness to retry the whole case, including questions of the validity and enforceability of the contract. The colloquy on which he relies, as even a casual examination of the transcript will disclose (2 Tr 3-5), was directed only to the order and manner of proof, not the issues to be tried. The trial judge gave no hint before the evidence was all in that these issues could or would be expanded beyond those set forth in his order granting a partial new trial.

4. The only "new" evidence received at the partial new trial which is relied on to support the trial judge's second decision is testimony that the five-mill formula applied to fir as well as digger pine plywood (Op Br 25; see Br 30, 61-62).[10] As has been shown (Op Br 81),

9. Paragraph 3 provided:

"* * * It is recognized that the afore-mentioned mills publish price lists at different intervals and vary their prices by granting additional discounts. * * *" (Op Br 94-95)

10. Defendant says:

"The inconsistency between the court's opinion after the first trial and its opinion after the second trial was because of a misapprehension of the court at the first trial as to the products covered by the pricing formula. * * * The effect of such evidence, however, was to render untenable the premise upon which the court had based its decision at the first trial." (Br 71) this evidence did not affect the independent and alternative basis on which the trial court originally sustained the validity and enforceability of the contract, namely, that the five-mill formula was a subsidiary clause which provided only a standard or guide to the current market price (1 Op, R 82-83). That question was and remained beyond the issues which were to be retried.

VI

The price cases relied on by defendant do not support its position.

The price cases cited by defendant (Br 36-43) do not assist it. Not one of them concerned an exclusive distributorship agreement which operated through orders for resale in the open market. They contradict the contention that a formula designed to assist in ascertaining the market price at which the parties agreed to deal is an essential provision of the contract.

In *Canadian Nat. Ry. Co. v. George M. Jones Co.*, (CCA 6 1928) 27 F2d 240 the purchaser contracted to buy coal for its own requirements. The parties were not seeking to sell at the market price, nor was the formula limited to cases in which the market price could not be otherwise determined. Furthermore, the parties later agreed on a fixed price of $3.50, thus expressly modifying the price clause of the contract. The court enforced the modification agreement, and its remarks respecting the discharge of the contract did not control the decision in any event.[11] The case involved only the failure of an agreed price between the parties and has no bearing on the present facts.

In *Turman Oil Co. v. Sapulpa Refining Co.*, (1927) 124 Okl 150, 254 Pac 84 the parties did not intend to operate at the current market price. They agreed that the price would be that paid by a specified company for the same product together with a premium for quality. The other company then changed to a new pricing method based on gravity grades. The parties adopted that method, agreeing that the question whether plaintiff was still entitled to the premium for quality would be reserved for future determination. The action was brought by the seller to recover the premium. The court denied the claim, because the price, after the change in the pricing method, had been determined by an altogether different formula and the formula which had failed was the only means of determining price under the contract.

Ross Lumber Co. v. Hughes Lumber Co., (CCA 5 1920) 264 Fed 757 concerned three contracts for the sale of specific quantities of lumber at a published market price, not an agreement for marketing a mill's

11. The court's remarks are inconsistent with *Mantell v. International Plastic Harmonica Corp.*, (1947) 141 NJ Eq 379, 55 A2d 250, because the contract, as in *Mantell*, called for sales at the same prices charged other persons, and there were no other sales.

production over a long period of time. The court held that wartime price controls frustrated the parties' intent that the price should be regulated by "actual" sales in the market, and that both parties were excused from further performance. Defendant's quotation (Br 41-42) has been torn from context.

> "The idea of a market price is based upon the untrammeled dealing in a commodity, by sellers and buyers unhampered by price fixing by governments or monopolies. There was no such market existing subsequent to June 10, 1918, when the government fixed the maximum price. * * *" (264 Fed at 760)

In this case, there is no suggestion that the market is not free and open, and we know that the market price is ascertainable and was ascertained by the parties for five years.

In *Jules Levy & Bro. v. A. Mautz & Co.*, (1911) 16 Cal App 666, 117 Pac 936 at 937-938 it was specifically found that the parties intended to leave the price to subsequent agreement, and the contract was consequently one to make a contract. The case, consequently, is utterly irrelevant to the present facts. This distinction was recognized in the *California Lettuce Growers* case (*California Lettuce Growers, Inc. v. Union Sugar Company*, (1955) 45 Cal 2d 474, 289 P2d 785 at 790) in which it was pointed out (citing *Levy*) that it is not necessary to the validity of a contract of sale that there be any provision at all for determining the price.

In this case, the parties dealt at the market price, as the trial court found, and the problems presented in *Levy* are simply not involved.

Counsel cites but does not discuss *Louisville Soap Co. v. Taylor*, (CCA 6 1922) 279 Fed 470, in which the parties contracted for rosin at a price based on the daily closing price (not the posted price) on the Savannah Board of Trade. During the period involved, there were no sales of rosin on that market, which had been used by the parties as a reasonably accurate reflection of current market price (at 476-477). The court, in language which supports plaintiff's position in this case, held that in the absence of any transactions in the market, there was no way of determining

> "Prices that would reflect the true condition of the market generally, * * *" (279 Fed at 477).

The posted price was not an adequate guide, because

> "* * * the quotations posted did not reflect the true and actual condition of the market as to price * * *" (279 Fed at 478).

The price provision had failed,

> "* * * because indefinite and uncertain, and *[it was] no longer possible of ascertainment by the*

> *means or method provided in the contract or in any other way.*" (279 Fed at 478; emphasis supplied).

See also Prosser, *Open Price Contracts for the Sale of Goods*, 16 Minn Law Rev 733 at 785-787 (1932).

Shell Petroleum Corporation v. Victor Gasoline Co., (CCA 10 1936) 84 F2d 676 at 679-680, cert den (1936) 81 L Ed 450, also cited by defendant (Br 37), stands for the same proposition. That was a contract for gasoline at a minimum price no lower than 2¢ less than the monthly average quotation for a specified grade of gasoline published in a named trade journal. During the period in question, the trade journal ceased to publish prices for that product. The sellers sought to recover under the minimum price clause by proving that a different type of gasoline, for which prices were quoted, was commonly regarded as the same thing. The court rejected the claim, because the products were not in fact the same. It said:

> "* * * it was the intention of the parties to use the market price to be ascertained from monthly average quotations in a trade journal of a different commodity than that purchased, from which the deduction of two cents per gallon should be made. Certainly they did not intend to be bound *by quotations that were carelessly made and not fairly in accord with market prices*. It was not contemplated that those quotations would cease, but would continue for the life of the contract. Neither party was responsible for their cessation, and neither

should be made to suffer damage on that account, or *forego its rights under the contract if they can be established by competent proof*. The quotations were not intended as mere formalities. *They were to represent market price, and if proof is obtainable as to what the market price of 58-60 U.S. Motor gasoline was during the time in question it must be inferred that the quotations if they had been made would have been in accord.*" (84 F2d at 679-680; emphasis supplied)

Thus, where a pricing standard is used in the belief that it will reflect market price, and that standard fails, other means of determining the market price can be used, and the contract will not fail with the formula unless there is no market or the market price cannot be otherwise ascertained.

Defendant's attempt to distinguish *Mantell v. International Plastic Harmonica Corp.*, supra, (1947) 141 NJ Eq 379, 55 A2d 250 merely emphasizes its application to the present facts. In that case, the failure of a price clause was held not to terminate the contract, because the contract was a distributorship agreement in which "price" was a subordinate matter. The court so held, even though the article involved was a new device and not one in general market competition, such as plywood. Furthermore, the court's reliance on the immediate mutual obligations of the parties is directly applicable to the present facts. Plaintiff in this case was obligated to develop a market for defendant's production and to make large loans to defendant for new equipment. There is no contention that plaintiff did not perform these duties. They were immediate duties, duties which did not depend upon the formula and which disprove defendant's contention that the contract was discharged when it could not be applied on a five-mill basis. It is simply not true that "plaintiff did not wish to assume the obligation to sell for the manufacturer" (see Br 48). It expressly obligated itself to do so in the contract, and this obligation was not impaired or affected by the option language in the contract.

VII

The doctrine of practical construction is applicable to the case.

1. The doctrine of practical construction is applicable to determine the mutual intent of the parties at the time of contracting (see Def Br 50-52). In this case, the parties' conduct confirmed the trial court's finding that their contract called for sales at current market price, and that this was the price which they constantly determined without reference to the formula or whether it could or could not be applied. The parties persisted in this construction of the contract for five years, until defendant concluded that it could market its production directly and perhaps save for itself a point or two of plaintiff's commission.

2. The terms of the contract were highly ambiguous with respect to whether the formula was to be the sole and exclusive means of determining the market price at which the parties agreed to deal. The differences between paragraph 3 (which contained the formula and concerned the price to be charged plaintiff's customers) and paragraph 10 (which concerned the price plaintiff was to pay defendant and made no reference to the formula, but did provide for arbitrating certain prices) were themselves proper subjects of construction by reference to the parties' conduct. These ambiguities are increased by consideration of the circumstances in which the contract was negotiated,[12] which made it highly unlikely that the formula was intended to be more than a guide to market price. The market position of the parties, the immediate and long term obligations which they assumed, and plaintiff's capital risk all combined to create substantial doubt about their intent. This doubt is emphasized by the uncontradicted testimony of both sides that the formula was not to be used at all except where market price could not otherwise be determined.

3. Finally, under controlling California law the ambiguity, insofar as it is necessary to the application of

12. Counsel does not suggest that the circumstances cannot be shown or considered; they can. Cal Code Civ Proc § 1860.

the practical construction doctrine, need not appear on the face of the contract, which can well mean one thing to the court but something different to the parties. The parties' conduct, if ambiguous under the agreement, itself creates the ambiguity, and the doctrine is applicable. The parties' conduct in this case unquestionably required its application. *Crestview Cemetery Association v. Dieden*, (1960) 54 Cal 2d 744, 8 Cal Rptr 427, 356 P2d 171 at 177-178; Op Br 58-65.[13]

VIII

The arbitration clause is inconsistent with defendant's position.

Defendant's contention that the arbitration clause was waived by the commencement of this action wholly misconceives plaintiff's point. The question is not whether plaintiff waived its right to arbitrate by bringing this lawsuit; it is whether the presence of the arbitration clause in the contract does not prove that the formula was merely a guide or barometer to market price and was not intended to be either exclusive or fundamental to the operation of the contract. The question is not whether plaintiff should have resorted to this remedy, but whether the existence of the remedy is not

13. This rule has been repeatedly applied since *Dieden*. See *Beab, Inc. v. First Western Bank (etc.)*, (1962) 204 Cal App 2d 680, 22 Cal Rptr 583 at 588; *Collins v. Home Savings and Loan Association* (1962) 204 Cal App 2d 86, 22 Cal Rptr 817 at 824. In *Dieden*, as here, defendant's contention was an afterthought (356 P2d at 178). As late as the spring of 1960, defendant affirmed its obligations under the contract (Exh 2; R 106).

basically inconsistent with defendant's contention that the contract was discharged by the parties' failure to use the formula. If defendant's present contention had ever been made prior to its repudiation of the contract, the arbitration clause could have been used and would have been binding on the parties.

CONCLUSION

The errors of the trial court resulted from an incorrect analysis of the contract relationship between the parties and resulting mistakes of law and its manifestly wrong conclusion (R 121-122) that obligations of good faith and fair dealing are not present in this, as in all other types of contracts. The trial court's fact findings largely supported plaintiff's position and resolved the issues in the pretrial order in plaintiff's favor. The remaining issues were legal, not factual, and defendant's "record references" in its brief (Br 64-71), which seek in part to sustain its tendered findings which the trial court rejected, are merely erroneous legal contentions. Some of them, indeed, disregard and conflict with the findings in the trial court's second opinion (see, e.g., Spec 9, Br 65; Spec 12, Br 66).

For a substantial period during the life of the contract, plaintiff marketed more than 95% of defendant's production, and even when defendant was engaging in its program of outside sales plaintiff sold more than one half of all that defendant produced (Exh 24; Exh 17, pp 2-4). During the entire life of the contract, plaintiff marketed ¾ of defendant's total production. It is therefore wholly untrue to state (Br 72) that plaintiff

> "* * * assumes that the parties * * * would not have been confronted with the same dead-end of price disagreements that characterized their operations in the past. * * *"

There was no dead end. On the contrary, the contract worked reasonably well, and the market price was ascertainable and was in fact ascertained by the parties for five years. Like most contracts, its effectiveness depended on their integrity and good faith in performing it, but this does not affect its validity or enforceability.

The judgment should be reversed and the case should be remanded for computation and entry of judgment for the amount of plaintiff's damages.

Respectfully submitted,

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Attorneys for Appellant

CERTIFICATE

I certify that, in connection with the preparation of the foregoing brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

No. 18785

In the

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INTERSTATE PLYWOOD SALES CO., a corporation,
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PETITION FOR REHEARING

Appeal from the United States District Court
for the Northern District of California
Southern Division
HONORABLE W. T. SWEIGERT, Judge

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AUTHORITIES

PETITION FOR REHEARING

TO THE HONORABLE WILLIAM E. ORR, FREDERICK G. HAMLEY and JAMES R. BROWNING, Circuit Judges:

Appellant respectfully petitions the Court for a rehearing.

The issues in this case are important, both to the parties and to other businesses engaged in marketing plywood under long-term contracts. The Court, however, has not dealt with them. It seeks instead to dispose of the case on the basis of findings which are themselves incompletely and inaccurately stated in its opinion. This petition asks that the issues be recognized and considered.

1. The Court's conclusion that the contract is unenforceable ignores material findings of the trial court and is based upon a postulated finding which the trial court did not make and which is inconsistent with its actual findings.

The trial court found (2 Op, R 102, 110-111, 119-120) and this Court recognizes (pp 4-5) that the five-mill formula was only to be used when the general market price of plywood could not otherwise be ascertained. It also found (a) that the parties intended to deal at the general market price, when it could be ascertained, without reference to the formula (2 Op, R 102, 110-111, 119-120); and (b) that the parties dealt under the contract, not outside it (2 Op, R 106-107, 115).[1] The evidence was undisputed that appellant successfully marketed the bulk of defendant's production for five years.

This Court has rejected the conclusion which these findings require by reference to another and contradictory "finding" which the record shows the trial judge never made. The "finding" (p 5) "that the formula was intended to be the sole and objective binding means of fixing price under the agreement" (see R 153) was not a finding of the trial court. It was included in a set of findings prepared by defense counsel at the judge's request for findings "in accordance with the views" expressed in his second opinion (see 2 Op, R 122).[2] By order, however, the opinion, not counsel's tendered findings, stood as the findings of the court. Counsel's findings were adopted only insofar as they were consistent with it (R 149). This tendered "finding" patently contradicted the opinion, and it is astonishing to find it used as a basis for decision by this Court.

2. The finding that the five-mill formula was only to be used when the parties could not otherwise ascertain the general market price raised for decision the cen-

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1. *Not* "under the other contractual provisions" (p 5).
2. Cf *US v. El Paso Natural Gas Company*, (United States Supreme Court, April 6, 1964) ___US ___.

tral issue in the case, namely, whether the formula was so material that its failure from the beginning rendered the contract unenforceable. This Court's opinion, however, does not even suggest that there is such an issue—much less that it was given any consideration. The Court simply assumes that there is a rule of law which discharges a contract in such cases or that the price formula was shown to be of such central importance as to make its continued availability essential to the enforcement of the contract. Both unexpressed assumptions are wrong, and appellant has demonstrated beyond any reasonable dispute that they are wrong (App Br 54-70). We ask the Court at least to consider this critical question.

3. Appellant's reliance upon the practical construction doctrine related directly to the question of the materiality of the formula. In rejecting it, the Court says (p 6) that the parties did not refer to the formula because it had failed. This ignores the undisputed testimony of all of the witnesses that they did not even mention the "problem" which the Court assumes its failure created. The whole point of this testimony was that it showed there was no problem except in the mind of the trial judge. While the failure of the formula may explain why the parties did not use it, it does not explain why they did not talk about it.

The other reason assigned by the Court (p 6) for ignoring the parties' conduct is that the general market price was the only price at which they could do business, and that their dealings at that price consequently did not prove that they did not originally intend to deal at a different price calculated under the formula. This assertion merely accepts and states plaintiff's basic position—that the contract price was necessarily the general market price, and that the parties simply cannot be held to have agreed that a different price (or a contingent "formula" which would be useless if it led to a different price) was a material term of their contract.

4. The inadequacy of the court's analysis is further demonstrated by its approval of the trial court's "finding" that the parties "waived" the formula while performing the contract which was unenforceable from the first because the formula had failed (p 5). If the formula was "waived", it necessarily follows that it was not so material that its prior failure could discharge the contract—**and neither could its "waiver".**[3] It also follows that the outside sales were made in contravention of an existing contract (see p 7).

In short, the finding of "waiver" does not meet or

3. The trial judge considered "waiver" only as an alternative to the rule of practical construction. He did not reject the evidence of practical construction as "unconvincing" (p 6), but did so on the theory that he had to choose between the two alternatives, and plaintiff had not shown what it never asserted: that the formula was not intended to be binding at all (2 Op, R 114-117).

dispose of the basic issue, which is whether the formula was material, not whether it was waived. This fundamental inconsistency in the Court's opinion should be explained if it is to be treated as a basis for its decision.

5. The form of long-term contract involved in this case is widely used in the plywood industry. Pricing clauses referring to the price level of neighboring mills are a constant feature of such contracts. It will, we suggest, come as a distinct surprise to those who finance mills against future production and commit themselves for millions of board feet over a period of years that the validity of their contracts is dependent upon the continued operation and constant availability of published price schedules of all of the mills named in the contract. The decision of the Court ignores the established practice of important elements of the business community, and we ask the Court to reconsider the issues involved and the economic consequences of what it has done.

The petition should be allowed.

Respectfully submitted,

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Attorneys for Appellant

CERTIFICATE

I certify that in my judgment the foregoing Petition for Rehearing is well founded, and the same is not interposed for delay.

____

of Attorneys for Appellant

No. 18,786

IN THE

United States Court of Appeals
For the Ninth Circuit

UNITED STATES OF AMERICA, *Appellant,* vs. FIRST SECURITY BANK, *Appellee.*	

On Appeal from the Judgment of the United States District Court for the District of Montana

BRIEF FOR THE APPELLEE

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IN THE

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BRIEF FOR THE APPELLEE

STATEMENT OF FACTS

The government's statement omitted many essential items of fact on which Judge Jameson based his opinion. In the interest of brevity the appellee adopts the full text of the facts set forth in the District Court's opinion. The government in its statement of facts deleted parts of the District Court's statement on pages 14 through 18 of the Record in reference to the evidence as to the existence of the partnership and its operation of the insurance business which led the lower Court to make the following comments:

> "There is no question in my mind that the stockholders of the bank intended to create a partnership and understood that they were operating the insurance business as a partnership during the years in question." (Record, page 18.)

and the following conclusion:

> "It is my conclusion that plaintiff has assumed its burden of showing that a partnership did in fact exist, whether or not the written articles of co-partnership were executed by all of the partners, and that the partnership did in fact operate the insurance agency during the years in question." (Record, page 21.)

SPECIFICATION OF ERROR

In the trial before the District Court the government contended as follows:

> "Defendant contends (1) that the plaintiff failed to prove that the stockholders did in fact form a partnership and (2) that if the court finds that the stockholders did create a partnership which operated the insurance agency, the income from that agency is still taxable to the bank, since it is not a partnership recognizable for tax purposes as an independent taxable entity apart from the plaintiff." (Record, page 20.)

In this Court the government now contends as follows:

> "The District Court erred:
>
> 1. In holding that the income from the insurance business was allocable to the partnership and not to the bank.

> 2. In deciding this case in favor of the taxpayer." (Appellant's brief, page 7.)

It would appear on reading the appellant's specification of errors on appeal that the government has adopted the District Court's finding that the partnership did in fact exist and operated the agency.

As we read the appellant's brief, however, it seems that it is still contending that the District Court erred in finding that the partnership existed and conducted the insurance business. The stated basis for the appellant's apparent contention is that the record does not show a transfer of the insurance business to the partnership prior to 1957. Judge Jameson's Conclusion of Law Number 3 (Record, page 38) that the partnership did operate the insurance business is based on the uncontradicted evidence that the bank stopped selling insurance at the end of 1945. The uncontradicted testimony of C. H. Brocksmith, the principal officer of the bank (Record, page 49), is as follows:

> "Q. And commencing at the time of the purchase, from 1942, did the bank engage itself as an agent to sell insurance?
>
> A. Yes, sir.
>
> Q. And for how long did the bank sell insurance?
>
> A. Through 1945.
>
> Q. As I understand your testimony then, the bank stopped selling insurance in 1945?
>
> A. Yes, sir."

The uncontradicted testimony of C. H. Brocksmith, a member of the partnership, that the partnership commenced selling insurance beginning in 1946 is as follows:

"Q. In 1946 I believe you testified that you engaged in the insurance business as a partner, is that correct?

A. Yes, sir.

Q. And by that I am sure that you intended that it be separate and apart from the bank?

Mr. Schwalb. Objection.

The Court. Objection sustained.

Q. What was your intent as far as the conduct of the insurance business was concerned?

A. To completely separate it from the bank business.

Q. And engage as a partnership?

A. Yes, sir."

ARGUMENT

We agree with the government in its statement on page 17 (Appellant's brief) to the effect that each case in this area must necessarily turn upon its own facts.

The Appellate Court is primarily concerned with the review of the District Court's interpretation of statutes or constitutional provisions or controlling decisions. Other than the application of Section 482 I.R.C., the only contention being made by the appellant is one involving the factual determination of the District Court.

Rule 52 (a) of the Federal Rules of Civil Procedure is applicable here.

"Rule 52. Findings by the Court.

(a) Effect. In all actions tried upon the facts without a jury . . . . Findings of fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses."

U. S. v. United States Gypsum Co., 68 S. Ct. 525;

U. S. v. Rosebrook, 318 Fed. 2d 316 (9th 1963);

Chism's Estate v. Commissioner of Internal Revenue, 322 Fed. 2d 956 (9th 1963);

Campagna v. U. S., 290 Fed. 2d 682 (9th 1961).

We urge the application of Rule 52 (a) on the basis that there is ample evidence to support the District Court's finding of fact.

KIMBALL[1] AND CAMPBELL[2] CASES

There are really only two cases wherein Courts have considered circumstances of fact which are closely related to the case under consideration. We do not wish to burden this Court with an analysis of those cases, as Judge Jameson has so ably analyzed them that further comment is unnecessary. We do wish to point out the misconstruction of the appellant of those two cases, as follows:

(1) As a point of argument and claimed construction of the *Campbell* case, the appellant states on page

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[1]*Bank of Kimball v. United States,* 200 Fed. Supp. 638.

[2]*Campbell County State Bank, Inc. v. Commissioner,* 37 T.C. 430, reversed 311 Fed. 2d 374 (8 Cir.).

17 of its brief that the bank in the *Campbell* case never owned the insurance business, while the fact is, and as pointed out by Judge Jameson, that the bank in the *Campbell* case in effect operated the insurance agency the first year.

(2) In commenting on the *Kimball* case, the appellant leads the Court to believe that the reason the District Court found for the government was that there was no showing that in 1951 there was a transfer of the insurance business. This may have been a factor in determining that the partnership did not exist but the appellant overlooked the important facts of the *Kimball* case which distinguish it from the present case in that in the *Kimball* case no partnership returns were filed, the Board of Directors passed motions governing the operation of the alleged partnership and commissions were paid pursuant to motion of the bank directors. Such facts do not occur in the case on this appeal.

Other than the *Kimball* and the *Campbell* cases, the only case which the appellant cites which relates to the fact issue here is the case of *Nichols Loan Corp. of Terre Haute v. Commissioner* (P-H TC Memo 1962-149, 21 TCM 805) Decision on Appeal 321 Fed. 2d 905 (C.A. 7th). The appellant in its brief states in the note on page 19 that the Tax Court "deemed crucial" the fact the insurance businesses were *not* transferred by preexisting partnerships to subsequently formed finance corporations in its finding that the insurance income was properly attributable to the partnership and not to the corporations. We cannot find in that opinion any language which would justify the importance the appellant seems to place on the finding the Court made as to the non-transfer of the insurance business to the loan corporations. In the *Nichols* case the partnership existence was never questioned. In fact, while not at issue here, the main issue on appeal was the allocation of expenses, wherein the Court found (quoting from the syllabus No. 1 (321 Fed. 2d 905)):

> "1. Business Expenses—Trade or business—corporations. Business expenses attributable to credit insurance were deductible as ordinary and necessary expenses of small loan corporations. It was advantageous to these seven corporations to have credit insurance available to their customers for a 'one-stop' service in borrowing. Availability of the insurance was essential to meet competition, it reduced bad debt risks, and the customers wanted it. Making insurance available was sound business judgment and all overhead expenses of the insurance portion of the business were deductible as ordinary and necessary expenses of the loan business. Reference: 1963 P-H Fed. 11,018 (5)."

Other than the *Campbell, Kimball* and *Nichols* cases, the cases cited by the appellant have no particular application to the facts considered on this appeal. For example, the government, in referring to the Brocksmith letter set out in the appendix, states on page 13 of its brief:

> "While the arrangement may have been sufficient to satisfy the state law requiring a separa-

> tion of the insurance business from the banking business, it was not sufficient to enable the bank to avoid being taxed on income which, in reality, it earned."

Cases are cited. When the appellee examined these cases it thought there would be cases involving state law preventing the conduct of certain businesses. All that these cited cases hold is that tax must be paid by the entity that operates the business, a rule with which we have no quarrel. Judge Jameson, on substantial evidence, has found and held that there were two entities conducting separate distinct businesses. Brocksmith, in the letter, demonstrates and urges that banks be allowed to operate agencies and gave his reasons, but laments the fact that it cannot be done and was not done by the appellee after the pressure of the insurance companies and the attorney general caused the separation.

APPLICATION OF SECTION 482

The District Court held that the partnership did exist and did conduct the insurance business. No reason is given by the appellant to show that these findings of fact are arbitrary and thus the question of the application of Section 482 must be applied to the factual situation wherein we have two entities, one conducting the insurance business and the other conducting the banking business and both entities owned by the same individuals.

Section 482 defines its own application. Such application and reason for enactment is commented on by this Circuit Court in *Rooney v. U.S.,* 305 Fed. 2d 681 as follows:

> "The legislative history indicates that the predecessor of Section 482 was designed to prevent the avoidance of tax or the distortion of income by the *shifting of profits from one business to another.* (H. Rep. No. 2, 70th Cong., 1st Sess., p. 146 (1939-1 Cum. Bull. (Part 2) 384, 395); S. Rep. No. 960, 70th Cong., 1st Sess. p. 24 (1931-1 Cum. Bull. (Part 2) 409, 426)). See Asiatic Petroleum Co. v. Commissioner, (2 Cir. 1935) 79 F. 2d 234, 236-237 (16 AFTR 610); cert. den. 296 U. S. 645. This purpose is effected if the taxpayers are commonly controlled when they deal with each other; control at another time is unimportant. Section 39.45-1 (c) of Treasury Regulations 1184 supports this view in stating that transactions between controlled taxpayers will be subject to special scrutiny." (Italics supplied.)

It is manifest that the insurance business is a separate business from the banking business and the two entities did not deal with each other and there was no shifting of profits from one to the other.

The District Court (Record, page 27) recognized this cardinal principle of the application of Section 482 when it stated:

> "This case, as presented, does not involve an allocation of expenses pursuant to Section 482. It would seem that a reallocation could properly have been made with respect to any items of expense which might under appropriate evidence 'be reasonably considered expenses attributable

> to the insurance partnership.' Campbell County State Bank v. C.I.R. 8 Cir. supra."

The lower Court's comment is in accord with the *Rooney* case (supra).

We call attention to the words of the appellant which ask for a reversal of the District Court.

Page 11, Appellant's Brief:

> "We do not contend that there must be some evidence of a transfer of the insurance business to the partnership before the lower court can conclude that the bank divested itself of that business."

The appellee contends that the District Court fully considered this.

Page 12, Appellant's Brief:

> "Our position that the insurance business was never transferred to the partnership is not inconsistent with any direct finding by the lower court."

It is the appellee's contention that this was considered by the District Court and found not decisive.

Page 13, Appellant's Brief:

> "In addition to the absence of evidence showing that the bank transferred the insurance business to the partnership, the conclusion that the bank never divested itself of the business is supported by the fact that the bank continued to treat the insurance business as its own business."

The appellee contends that the evidence is in direct opposition to the conclusion of the appellant.

Page 15, Appellant's Brief:

> "Moreover, and of particular significance, is the fact that the bank treated the insurance income as its own income."

(This is a reckless and unwarranted statement not supported in one scintilla by the Record.)

Page 16, Appellant's Brief:

> "Finally, the fact that the bank had a valid business reason for separating the insurance business from the banking business does not foreclose the Commissioner from allocating the income to the bank to clearly reflect its income."

The appellee does not rely on this fact alone, but only that it is indicative of the motive for the separation of the businesses.

Page 17, Appellant's Brief:

> "whether the bank ever ceased to own the insurance business after the formation of the partnership."

There is direct testimony that the bank ceased selling insurance.

In effect, what the government actually contends is that the District Court erred in the conclusion that a partnership existed and did sell insurance. The only reason assigned is that there is no evidence of a sale or transfer of the insurance business to the partnership.

The facts and undisputed facts are summarized as follows:

(1) In 1945, the bank, a Montana corporation, found that it was against the Montana law to sell insurance (direct testimony (Record, pages 49, 50)).

(2) Insurance companies refused to permit banks to act as their agents (direct testimony (Record, pages 50, 54)).

Numbers one and two above are the motives for the change—not tax evasion as contended by the government.

(3) At the end of 1945 the bank stopped selling insurance (direct testimony (Record, page 49)).

(4) In 1946 a partnership was formed and it did sell insurance (direct testimony (Record, pages 50, 51)).

(5) Contrary to the *Kimball* case and in line with the *Campbell* case, there is no evidence that the board of directors of the appellee bank exercised any proprietary functions as to the conduct of the insurance business.

(6) The partnership kept separate accounts, books, files, stationery, bank deposits, and had separate correspondence. (Record, page 78.)

(7) The actual cost of the running of the agency was small, the capital requirements none (Record, page 62, Finding No. 15 of Trial Court Record page 34), and the appellee bank considered the agency brought business to the bank and was willing to provide desk, file space and some clerical help in exchange for this advantage. (Record, page 92.)

(8) Partnership income was kept segregated and distributed to the partners each year so that there were no accumulated earnings. (Record, page 67.)

(9) Partnership income tax returns were filed showing the income of the partnership. (Record, page 123.) The government has not questioned the fact that the partners paid tax on their partnership earnings. (Record, page 106.)

(10) The insurance agency was given to the bank in 1942 without consideration and though there is no proof in the record as to the value of the insurance business, four years later, in 1946, what it was worth in 1957 is no indication that the insurance business had saleable value in 1946. If the government feels that it did have value in 1946 and was in effect distributed to the stockholders, then the government's remedy would be by way of a tax to the stockholders as a dividend.

CONCLUSION

It is our contention that the record amply sustains the District Court's finding that the partnership existed and it did sell insurance. If this Court sustains this contention, then the only issue is the application of Section 482. The only two cases on similar facts *(Kimball* and *Campbell)* say the bank is not to be taxed on the insurance earnings.

We think that this Court should, in unequivocal terms, tell the Commissioner of Internal Revenue that Section 482 is not and was never intended as authority to *combine* income of separate entities but merely to see that the income of the insurance business did not include bank income and vice versa, that the bank income did not include insurance income, or as Judge Jameson points out, that if the bank is claiming a deduction for light, telephone, etc., which was attributable to the insurance partnership, such deduction may be disallowed to the bank under Section 482. This course was not pursued by the government here.

We are of the opinion that the government has failed to demonstrate to this Court that under Rule 52 the District Court's Findings and Conclusions are clearly erroneous.

Dated, Helena, Montana,
February 28, 1964.

Respectfully submitted,
GALUSHA AND MELOY,
FRANCIS GALLAGHER,
JOHN R. KLINE,
Attorneys for Appellee.

CERTIFICATE

I certify that in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Dated this 28 day of February, 1964.

PETER MELOY.